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BOTSWANA: INDUSTRY LOCATION STUDY

FINAL REPORT

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BOTSWANA INDUSTRY LOCATION STUDY

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EXECUTIVE SUMMARY

Objectives

The Industry Location Study carries out a preliminary exercise to identify target industries, based on a comparative advantage assessment. Trans-national corporations are also surveyed to identify key factors influencing the location of foreign direct investment in manufacturing and services, as an input into Botswana's marketing efforts to attract such investment to Botswana. Suggestions are also made as to how the results of the survey could be used as an input into industrial policy development, in order to influence changes designed to make Botswana more attractive to potential foreign investors.

TARGET INDUSTRY IDENTIFICATION PHASE

General issues

Comparative advantage is not only "natural", but it can also be developed, or change as a result of other developments. It can be acquired, *inter alia*, where activities have:

- learning effects
- economies of scale, or
- external economies

In these circumstances, "spillover effects" can lead to a whole sector, industry or economic segment developing or acquiring comparative advantage through the creation of assets, which may not be 'natural' to the economy.

The development of dynamic comparative advantage, or competitive advantage, depends on success at increasing the ratio of created assets [skills, technology etc.] to natural assets. There is an important role for government, therefore, in identifying industries with long-run promise, steering investment resources, assisting in the development of markets and investing in the creation of complementary assets, which the market may neglect due to their 'public good' character.

The target industry analysis is based on present factors [static comparative advantage], but also considers, therefore, where appropriate intervention could assist in developing comparative advantage in particular areas. The industries should be capable of serving the regional market at a minimum, and the international market, if possible. Industries are defined on the basis of the United Nations industry classifications [ISIC codes]. A brief overview description is given in Annex 2.

Botswana's assets and liabilities

A brief description of the main assets and liabilities together with a short discussion of some of the key issues appears in the main text.

Industry selection

Industries which are proposed for further examination are prioritised. The industries selected are divided into those which are potential candidates for immediate development on the basis of existing conditions in Botswana and those which are longer term prospects.

SHORT-TERM

Broad Category	Industry Sectors	Comments
Garments/Textiles	Garments Textiles Accessories (Including Buttons/ Zips...)	Immediate Priority
Assembly/Components	Automotive Light Engineering Electronics Plastics Rubber	Immediate Priority - with further industry profiles
Packaging/Consumer Products	Food and Beverages Pharmaceuticals Plastics Paper/Packaging Materials	Immediate Priority - possibilities for relocation of part of existing South African industry
Natural Resource Based	Leather Ceramics Glass Jewellery	Immediate Priority - unlikely to be major attractor of large-scale foreign investment
Household/Leisure Goods	Furniture Sporting Goods Wooden Products Fabricated Metals	Immediate Priority - with further skill developments

MEDIUM TERM

Broad Category	Industry Sectors	Comments
Tourism	Hotels Entertainment Facilities Conference Centres etc	Up for immediate promotion. as soon as service standards, infrastructure are in place
Transportation	Road Transport Freight Forwarding Transport Insurance Finance	Dependent on certain key developments for significant growth
Financial Services	Banking Custodian Facilities Insurance	Needs further study to identify viable niches and policy changes

LONGER TERM

Broad Category	Industry Sectors	Comments
Solar Products	Energy Generating Rural Focused	Needs significant investment and research and development, as well as education/training, but significant long term potential
Information Technology	Data Capture/Bulk Processing Assembly of Computers etc Software development	Similar to the above, but less natural advantages for Botswana

THE SURVEY PHASE

Carrying out the survey

The questionnaire [see Annex 3] contained questions regarding:

- business detail information
- investment information sources
- investment criteria

The overall emphasis of the questionnaire was to obtain information which would be of use to Botswana in improving its understanding of the needs of potential investors, in order to improve its ability to market effectively to them.

Due to the difficulty of identifying sufficient numbers of companies in other regions/countries, it was decided to limit the survey to American companies. A total of 83 companies were identified as having had some preliminary investment or other business

interest in the Southern African region. 39 of the companies responded.

Survey results

The report on the results in full is attached as Annex 4.

Nature of Investments/Businesses

Very few of the surveyed companies had proceeded actively with direct investment, with a number of others conducting other business activities in the region.

The main reasons for interest in the Southern African region included access to markets, political stability and availability of local partners.

The interest in accessing markets is clearly an interest in serving regional markets, rather than domestic or international. The main type of investment considered was a joint venture structure. There was an even split as to whether the potential investors were interested in raising working capital and long term financing locally, or in providing their finance from outside the region.

Information Sources

The main sources used, in order of frequency, are personal visits by company representatives, trade promotion offices and consultants. The target country embassy is also used and was cited as far and away the most useful source. The other three sources were seen to be equally useful.

In the case of Botswana, publications and the Botswana Embassy were as important as visits and the most useful as well. Botswana attained a very good rating at handling requests for information, with the publications most frequently cited as being "excellent". There seems to be room for improvement in responding to companies with specific technical information requests.

Investment Criteria

The factors cited as the most important investment criteria in each major area appear in a table in the main report.

Of the most favoured factors, the top criteria, in order, are physical/land access to the region's markets, stable democracy, good infrastructure, access to training and tax concessions. These are followed by availability of managerial experience, currency stability, availability of local partners, entrepreneurial culture and access to raw materials.

The most favourable factors for Botswana fall into the access to regional markets, the Political/Economic and the Quality of Life categories, while the least favourable are the concerns about utility costs and access to ports.

General Recommendations for the Improvement of Botswana's Image

The following suggestions were made by the surveyed companies. They are expanded upon in the report.

- Develop a more focused view on industrial development
- Develop industry specific investment incentives
- Encourage the local entrepreneurial spirit
- Make strong commitment to labour needs - especially training
- Designate an industrial spokesperson for Botswana in the US
- Promote investment advantages more clearly
- Deal with negative issues more effectively
- Develop a list of potential local joint venture partners
- Provide better institutional support to potential investors: Including improved follow-up to company enquiries, supplementing existing publications with industry specific data, and more specific facilitation of visiting businessmen.

Analysis and interpretation of results

Marketing Related Analysis

GENERAL APPROACH TO INVESTMENT PROMOTION STRATEGY

- Encouraging consideration of the need to invest in the region: This is based on the presently observed lack of interest in investment in Southern Africa. This could be done at a regional level, through SACU and SADC mechanisms, as well as by exhorting Botswana's regional partners to take a broader regional perspective in their foreign investment promotion efforts. The ongoing efforts to promote economic integration should be highlighted and statistics made available, giving a region-wide picture of the potential market. Use could also be made of successful or best practice case studies, illustrating the benefits gained by recent foreign investors.
- Botswana as the number one destination in the region: Against the above general background, there could be a strong focus on the second tier benefits offered by Botswana in particular, which make it [one of] the most attractive destination[s] for investment in the region.
- Targeting Industries and Foreign Companies: If the Botswana government wishes to significantly gear up its marketing efforts, it will have to make more effort to make carefully selected target sectors attractive and, then, seek out particular companies within those sectors and sell Botswana to them. This implies developing a clear cut industrial strategy, including choosing industrial sectors for particular attention based on a set of rational priorities; developing industry profiles for each of the priority targets, to facilitate targetted marketing and the development of sector specific incentive packages; gaining access to information about the investment patterns of the market leaders in the target industries; and, obtaining listings of all the companies in the target sectors in a range of countries, which have potential investors.

- Develop list of local joint venture partners: The list should also be extended to include the possible partners from elsewhere in the region, who could be persuaded to locate, for example their joint venture regional headquarters, or part of their operations in Botswana.

IMPLEMENTATION OF THE STRATEGY - INSTITUTIONAL CONCERNS

- **Passive or Active:** With a more targeted strategy as suggested above, Botswana would be able to conduct a more pro-active marketing campaign, without having to significantly expand its existing institutions. Consideration should be given to establishing a single focus of authority with overall responsibility for investment promotion 'from cradle to grave'. This is not expected to occur over night. The holding of the responsibility or accountability should not imply that the responsible authority carry out all the relevant work itself. For now, efforts should be continued by all the relevant players, with the emphasis on improving coordination, inter-institution communication channels and the sharing of information.
- **Information Sources:** A more targeted promotion campaign would need more specialised expertise and information sources available for the target sectors.
- **Institutional Responsibilities:** The natural choice for the central role player would seem to be TIPPA, which would require some capacity building. There should also be serious consideration of hiring outside expertise from the target countries to become industrial spokespersons on behalf of Botswana, assisting the commercial attachés, who themselves require further capacity building.
- **Handling of Potential Investors:** A number of recommendations regarding improved coordination and control apply in this area geared to ensuring that there is some awareness at a national level of the types of contacts and the types of referrals that have been made. The first stage in pursuing implementation of a number of the institutional recommendations would be to carry out an institutional capacity building and training needs assessment.

Implementation Action Plan

The following lists of activities are proposed to lead towards the successful implementation of the above recommendations:

- liaise with other SADC and SACU members to draw up a plan to promote inward investment across the region
- revise Botswana's investment promotion and marketing efforts, including promotional material, to place more emphasis on the perceived important investment criteria
- improve the targetting of key sectors in which Botswana has comparative advantage, or the potential to develop a competitive advantage
- develop a list of local and regionally based joint venture partners, with specification of preferred sectoral interests
- develop a more pro-active investment promotion strategy

- develop a monitoring and evaluation system
- conduct periodic reviews of investment promotion strategy and practice
- develop a database of available specialised expertise and information sources for target sectors
- improve handling of potential investors, through the provision of more targeted information for particular sectors; greater facilitation of visiting businessmen; greater assistance with trying to sort out queries and questions; and, cultivation of a portfolio approach to handling clients within TIPA and improved liaison and coordination with other agencies handling potential investors.

Policy Related Analysis

Suggestions arising both from the implications of the recommendations for marketing improvements, as well as directly from the responses to the survey questions are reviewed and discussed in Annex 5.

In brief they cover:

CONDITIONS FOR PROMOTION OF FOREIGN DIRECT INVESTMENT

These could include:

- pushing for improved trading access to the non-SACU markets in the region
- revision of the SACU agreement to remove existing biases against industrial development in the BLNS countries, and clearer opportunities for infant industry promotion [especially for those with an export orientation]
- targeted start-up utility tariff concessions or subsidies
- additional or extended targeted start-up tax concessions
- efforts to enhance the efficiency and reduce the cost of land transportation to improve access to regional ports.

Against these suggestions, it must be borne in mind that investment should be for the benefit of Botswana as a whole. Investment should build local capabilities, transfer technologies, create sustainable employment opportunities and bring other potential benefits.

The Botswana government should encourage a sharing of information on FDI policies with other countries in the region, with a view to moving towards harmonisation over time.

NEED FOR INDUSTRIAL STRATEGY

In the immediate future, in addition to the identification of target industrial sectors, work should be carried out to establish packages of incentives that would encourage investment in the target sectors in Botswana. Such assistance can be justified under infant industry arguments, which are now accepted by even the most orthodox of economists.

The other arm of developing an industrial strategy is the need for the development of sufficient capabilities within the organisations and institutions supporting it, both

governmental and non-governmental, so that they are capable of making judgements about the need to change the level of support and incentives and carry out such changes.

DEVELOPMENT OF LOCAL INVESTMENT CAPABILITIES

There is a need to develop a more dynamic entrepreneurial culture within Botswana and encourage a climate of preparedness to take risks and enter into commercial and industrial ventures. Further reforms in the financial sector can assist in achieving that. A specific analysis should be carried out on the basis of experience in other countries, as to how the development of an expanded local body of entrepreneurs might be made most effective.

Further investigations required

This section reviews the recommendations made above and lists a number of further possible studies, investigations and analyses which might be required. This list is by no means intended to be exhaustive.

Marketing Side

- SADC/SACU study for a regional investment promotion strategy and implementation plan
- development of industry profiles for proposed key target industries commencing with those for short term development
- target industry related study of potential local and regional joint venture partners
- institutional needs assessment analyses of all organisations, or parts of organisations involved in investment promotion activities
- development of institutional capacity building and strategic training plans

Policy side

The following are some of the more high priority possible studies.

- Botswana industry strategy study
- comparative review of incentive packages and relative cost and efficiency structures by target industry grouping
- comparative land transport efficiency study
- local entrepreneurship development study
- trade and investment policy integration study
- studies of proposed future regional trading arrangements [following above]
- study for proposed regional FDI policies and harmonisation proposals [against background of above]

1. INTRODUCTION

Objectives

The Industry Location Study conducts a preliminary exercise to identify target industries. Using a comparative advantage based assessment, a number of industries are identified, which the Botswana government may perceive as advantageous for the country to develop and into which the government may wish to encourage foreign direct investment. A brief justification for this approach is offered in the following paragraph.

One of the key assumptions, inherent in following a private sector led development path, is that markets work efficiently. Markets can only work efficiently, inter alia, with the provision of good information. While Botswana may already be well on the road to building an appropriate enabling environment for the propagation of privately owned industry, potential foreign capital may have inadequate information to consider making a decision to invest in Botswana. The provision of this information is expensive, however, and so Botswana must carefully target its promotional expenditures into areas considered to have the greatest likelihood of producing successful results.

The Study also seeks to identify, by survey, key factors influencing the location of foreign direct investment in manufacturing and services, especially by multinational corporations. The results provide an input into marketing efforts to attract such investment to Botswana. They can also be used as an input into industrial policy development, in order to influence changes designed to make Botswana more attractive to potential foreign investors.

Improved marketing and information availability, as a result of the study, in addition to directly improving Botswana's marketing efforts, may have a direct bearing on the investment decision process. Companies, with limited resources for conducting their own analysis, may be attracted to the country which is best able to supply the information required.

Feedback from potential investors is also an important input into ongoing policy debates about Botswana's industrial development strategy and the most appropriate policies to be followed, in particular, in as much as they are designed to foster an enhanced level of industrial investment.

Overview of the report

In the first part of the report, priority location factors identified from previous reports and surveys, as well as from the survey conducted under this study, are fed into a profile of Botswana's assets and liabilities, which forms the basis for an analysis of which industries may be worthy of becoming industrial development targets.

The analysis at this stage is necessarily relatively broad and general. Further research will be required to assess the key location factors on an industry by industry basis and, thus, which industries or industrial segments to clearly prioritise. Only at such a later stage would

particular industries be reinforced as immediate targets and marketing efforts be adjusted accordingly. Further research may also be required for a better understanding of individual industry characteristics, such as identifying general input cost ratios, of the industry in question.

In the second part, the results of the survey are presented. A large number of firms were identified, which had expressed interest in locating or conducting business within the Southern African region. They were interviewed with the assistance of a questionnaire. The questions sought to obtain information to be used in improving Botswana's marketing effort. They also queried the potential investors' prioritisation of those factors considered most relevant for their investment decision. The responses to these latter questions should provide a basis for improving the focus of Botswana's marketing efforts on its most popular and important investment criteria.

Where the questionnaire produced responses directly related to Botswana's marketing profile and promotional institutional set-up, recommendations for the improvement of the marketing effort are made.

Additionally, where there are clear-cut implications for policy development, reform or revision, such observations are also used to produce recommendations for improvement, in Annex 5.

PART A - TARGET INDUSTRY IDENTIFICATION PHASE

2. GENERAL ISSUES

There have been many previous efforts to identify possible growth areas or sectors for Botswana. They have been of varying quality. What they have all had in common is a lack of thoroughness and a predominantly anecdotal nature, which has done little to enhance their credibility as providing a solid basis for marketing Botswana to foreign investors.

The following analysis is rigorously based on a comparative advantage assessment of Botswana's assets and liabilities. It provides a solid base for immediate application in marketing efforts. It does not attempt, however, to develop industry profiles, or more detailed studies of individual sectors.

Comparative Advantage

Comparative advantage can take two forms:

- (i) static comparative advantage: that pertaining to the factors which are already present, for example, ready and cheap access to a particular natural resource; and
- (ii) dynamic comparative advantage: that which Botswana could develop in the future, on the basis of a particular set of circumstances or factors, for example, well trained technicians, which may result from a heavy and focused investment in training.

Comparative advantage is not only "natural", but it can also be developed, or change as a result of other developments. Dynamic comparative advantage is similar to the concept of competitive advantage, which may exist for particular companies, industries, or countries. Once achieved competitive advantage endows the holder with an ability to remain 'ahead of the game', if that competitive advantage can be maintained.

Comparative advantage can be acquired, *inter alia*, where activities have:

- learning effects [ie if costs decline as familiarity with new technology, management techniques or marketing methods increases],
- economies of scale [ie unit costs reduce as access to export markets increases], or
- external economies [ie where national economic benefits of access to new technology or techniques are greater than private - and private costs are unlikely to be recouped by individual firms].¹

¹ See Agosin, Manuel R. and Francisco J. Prieto, "Trade and foreign direct investment policies: pieces of a new strategic approach to development", *Transnational Corporations*, 2, 2, 1993, 63-86, p. 66.

In these circumstances, "spillover effects" can lead to a whole sector, industry or economic segment developing or acquiring comparative advantage through the creation of assets, which may not be 'natural' to the economy.

The Japanese experience shows the close relationship between "structural upgrading, dynamic comparative advantage and FDI, along the paths of its physical/human-capital-intensive factor endowment and technological progress".²

Target Industry Identification

Left on its own, the market is not an efficient identifier of potential long term comparative advantage.³ According to Dunning,⁴ this development depends on success at increasing the ratio of created assets [skills, technology etc.] to natural assets. There is an important role for government, therefore, in identifying industries with long-run promise. Government can also assist by steering investment resources, assisting in the development of markets and investing in the creation of complementary assets, which the market may neglect due to their 'public good' character.⁵

The target industry analysis is based on present factors [static comparative advantage], but also considers, therefore, where appropriate intervention could assist in developing comparative advantage in particular areas.

The study attempts to identify a small number of key target industries requiring further study and analysis. Given that the study aims to have some input into Botswana's marketing efforts in the immediate future, the main interest is in those industries which could potentially be developed in the short to medium term, as a result of Government policy changes, or other national developments and which could produce a competitive advantage for Botswana in those sectors in the medium term. Industries which can be developed over the medium to longer term will be considered as well.

Given the small size of the local market, the viable development of most industries [which have learning effects, scale economies or externalities] would be predicated on production for export, as well as the domestic market. The industries should be capable, therefore, of serving the regional market at a minimum, and the international market, if possible. The survey backs up this focus, with the strong emphasis of potential investors on serving the regional market.

² See Ozawa, Terutomo, "Foreign direct investment and economic development", *Transnational Corporations*, 1, 1, 1992, 27-54, p. 39.

³ See Agosin and Prieto, *op. cit.*, p. 66.

⁴ See Dunning, John H., "The global economy, domestic governance, strategies and transnational corporations: interactions and policy implications", *Transnational Corporations*, 1, 3, 1992, 7-45.

⁵ See Agosin and Prieto, *op. cit.*, p. 66.

Targetting Methodology

The approach taken is to identify in broad general terms what are Botswana's contemporary assets and liabilities, which might determine Botswana's possible present comparative advantage. An analysis is then carried out of industry categories, to assess, on the basis of the identified assets and liabilities, which industries would be candidates for further analysis. A prioritisation exercise is conducted, to develop the key target industries.

The prioritisation of those industries considered worthy of further investigation takes into account, where possible, consideration of industries developing in neighbouring countries [See Annex 1 - An Overview of Southern Africa's Trade and Industry Patterns], or as part of regional developments. It includes a brief review of trade statistics to see where there may be opportunities for import substitution at the regional level.

The targetting work is conducted on the basis of previous studies, including the World Bank study of "Opportunities for Industrial Development in Botswana", other relevant recent studies and documentation, as well as a solicitation of views from knowledgeable individuals, within both the private and public sectors.

The study is conducted industry by industry, with the industries defined on the basis of the United Nations industry classifications [ISIC codes]. A brief overview description is given in Annex 2. Each industry is analyzed to see whether Botswana has sufficient assets and comparative advantage, without any overwhelming problems, to consider the industry further.

3. BOTSWANA'S ASSETS AND LIABILITIES

These are grouped under seven categories. The assets and liabilities were identified by a small team of professionals working in areas associated with the industrial and commercial development of Botswana, drawn from Government, the Botswana Development Corporation [BDC] and the private sector. A brief description of the main assets and liabilities is given here, with a short discussion of some of the key issues.

A. Physical Resources

ASSETS

Good water quality

Sunshine

Supplies of beef, hides/skins, wildlife, sand, clay, gemstones, soda ash, copper/nickel, coal, reeds

Easy access to RSA resources

Okavango and other sites of natural beauty

Temperate/Dry Climate

Modern infrastructure: roads, airport, power, telecomms, largely well maintained

LIABILITIES

Poor water supply

Limited supplies/Uncertain quality

Relatively high utility prices, especially power, water and telecomms

The easy access to raw materials or intermediate goods elsewhere in the region, could provide the basis for the development of an industry, even where they are not immediately available within Botswana, if the rest of the cost factors can compensate for the additional transport and time costs thus incurred. For example, the fledgling garment industry is importing all its machinery and raw materials, in some cases even from outside the region.

Although there has been much discussion about Botswana's high utility prices, which are one of the important concerns to potential investors, the quality of service and reliability factor means that the real cost may be relatively lower, compared to neighbouring countries than the tariffs would imply. Furthermore, these costs are only strongly relevant for those industries which are major consumers of particular services, power, water, telecomms or transport. For many industries these form minor percentages of the final product cost and may well be compensated for by other factors. For a more detailed analysis of the importance of utility costs for each industry sector, specific industry profiles are required.

The good quality of water in the country, where available, and relatively efficient telecommunications are also important concerns to investors. The slowness of awarding a licence for the development of cellular telecommunications is putting Botswana at a slight disadvantage to other countries in the region.

B. Human Resources

ASSETS	LIABILITIES
English widely spoken	
Literacy relatively high	Low percentage completing secondary education
Education sector [all levels] expanding rapidly	Lack of industrial entrepreneurial culture
National Productivity Centre established	Relatively low productivity [compared to wages]
Funds available for investment in training and human resource development/tax concessions	Lack of well trained and experienced managerial cadre/culture
Labour mobile	Lack of skilled technicians
	Few companies have good in-house training capacity
Labour relations good/Unions tightly controlled [but lack of collective bargaining]	Relatively expensive unskilled labour [high minimum wage]

There has been much debate of late in Botswana, about the extent and nature of Botswana's relatively low productivity. It is the view of this study, that this issue is more tied up with the low quality of management and technical supervision in Botswana, as well as a poorly developed work ethic amongst large sections of the population. Neither of these is a binding constraint, however, and with good management of training and capacity building processes, they can be overcome within a reasonable period of time. They are serious constraints in the interim, with management experience and availability of skilled labour being revealed through the survey as important concerns. There is considerable urgency, therefore, to proceed with attempting to alleviate these constraints through enhanced training and capacity building programmes.

The education system has expanded very quickly and, while its benefits are questionable, to the extent that the average standard appears to have reduced, the sheer increase in numbers of pupils means that the benefits will continue to be felt well into the future.

The shortage of skilled labour has drawn many to conclude that the only viable short term development path is through labour intensive industries, as the generation of employment opportunities must be one of the main goals of industrialisation. There are other goals, however, including sustainability of development. Labour intensive approaches will only work when labour is a relatively cheap commodity and such industries may not be sustainable into the longer term, although arguably, as long as such industries provide sufficient boosts to growth in the shorter term, this should not matter.

Botswana has no shortage of capital at present, and therefore more capital intensive

processes, which do not require very high skill levels may also be appropriate. The example of the development of the financial sector in Botswana may be relevant here, where there has been a very high penetration of the use of computers, although the use is generally very mechanistic and of rather low skill level.

C. Policy/Legal/Regulatory Environment

ASSETS

British Legal System

Some streamlining to minimise regulations, but bureaucratic problems remain

Efforts made to reform licensing procedures

Low corruption

No price controls

Sound Macro-economic management

Relatively free movement of capital/Liberal forex controls

Accelerated land servicing programme to alleviate shortage of land for development

LIABILITIES

Labour Laws [minimum wage]?

Problems remain in obtaining work/residence permits for expatriate labour

Some industrial/commercial licensing procedures remain

No intellectual property laws [proposals being formulated]

No standards organisation [being introduced]

Difficult to get access/title to land to develop for industry [especially outside urban areas] - although factory shells available in some areas [but rents considered high]

The existence of minimum wage legislation has been controversial, but like the high utility costs is unlikely on its own to be a major impediment and is less of a concern to potential investors.⁶ Relatively few companies are presently paying at the minimum wage level. In competition with other countries in the region, it is very unlikely that even without the legislation, wages would ever sink to the levels presently experienced in countries such as Mozambique and Tanzania. The major potential consideration for the investor is the relative cost of labour per unit of output, in other words with higher productivity, the relatively high minimum wage ceases to be a major issue. At present, there seems to be no doubt that the combination does not auger strongly in Botswana's favour, but this is an area where specifically focused efforts could see improvement in the future.

A number of these areas are the subject of recommendations from the recent World Bank and other studies [for example, the recent review of exchange control regulations]. The recent

⁶ Recent economic literature, both theoretical and empirical, has swung heavily in favour of minimum wage legislation - see Fine, B., 1995, "Minimum Wage: Some Analytical Considerations", mimeo.

tendency has been towards trying to effect greater liberalisation, which could see further gradual improvements in the reduction in administrative and exchange regulations, the introduction of a standards organisation, and improved access to industrial land for private development. These administrative issues seem to be of considerably greater importance to investors than the labour and other 'cost' type issues.

D. Geography/Location

ASSETS

- Land access to RSA
- Land access to Southern/Central Africa
- Good access to land transportation/ports

LIABILITIES

- Long way from Ocean
- Long way from developed countries
- Inadequate air traffic services

Botswana's geographical location serves it best as a sub-regional centre for Southern Africa as a whole, given its central location. With the ongoing construction of the Trans-Kgalagadi Road, recent handing over of Walvis Bay to Namibia, ongoing development of road/rail container transshipment facilities, as well as the impending upgrading of the cargo facilities at the SSK airport in Gaborone, this position would be further reinforced.

The difficult issue facing industries is the poor proximity to regional ports, which is a major investor concern. This lends further support to the suggested focus on production for regional markets, where the ports issue is at most a consideration for imported inputs, but not for exports.

E. Market

ASSETS

- Easy Access to SACU and SADC markets - assisted by reduction in regional instability
- Preferential access to Europe through Lomé
- Most Favoured Nation and Generalised System of Preferences

LIABILITIES

- Domestic Market small
- Trade disputes cause problems in exporting to Zimbabwe
- South Africa has tended to use SACU to serve its own ends and impede industrial development in other members
- Non PTA member

The effects of the recent changes in South Africa on regional trade relations are as yet uncertain. They are undoubtedly going to affect the viability of South African industry, with South Africa joining GATT. A number of intended tariff reductions have already been announced, most notably in the textile and automotive industries. The gradual reduction of tariffs will lead to the withdrawal of the protection which has enabled much of South Africa's

"uncompetitive" industry to survive. The necessity of making South African industry more competitive may lead to it seeking lower cost environments, which may give Botswana opportunities for industry serving SACU and other regional markets to relocate from South Africa.

It is considered unlikely that Botswana's easy access to the South African market will be adversely affected by the SACU renegotiations. Access to the regional market remains much more favourable than access to the international. The difficulties in transportation links through to Europe/North America, mitigate against those industries where the time of delivery factors are essential. With continuing economic difficulties in many neighbouring countries within the region, the present SACU region offers the best market prospect in the short term. Together with this, the regional trading relationships are likely to take time to change, lending further support to immediate developments based on the status quo, with attention paid, nonetheless to international market possibilities.

6. Political/Financial/Economic Environment

ASSETS

Stable democratic government
 Stable currency
 Stable banking/financial services system
 FAP Incentives
 High level of government savings and forex reserves [over 18 months of import cover]
 Stock Market developing

LIABILITIES

Regional instability, although reducing
 Freight rates high
 Heavy security requirements for short term financing/Lack of effective competition
 Lack of export incentives, although export credit insurance available through local insurance companies
 Poor access to long term finance [especially not related to housing], apart from BDC [equity and loans] - less of a problem for major projects/corporations - positive real interest rates should assist

Apart from the difficulties in access to long term finance, there are few significantly unfavourable factors in this section.

The development of the stock market has so far facilitated the raising of long term finance for blue chip companies, financial institutions and trading houses. There has been no finance raised for manufacturing so far. This may be partly due to the unwillingness of privately owned manufacturing firms to open up to greater public scrutiny, but it may also reflect the risk-averse nature of the Botswana investors. If the local investors are unwilling to invest in the manufacturing sector, the likelihood of foreign portfolio investment being attracted is reduced. Thus the only likely improvement in access to long term finance in the short to medium term is from loans. For properly structured foreign direct investment, this need not

be a binding constraint, as it should not place a significant premium on the exchange risks of importing its fixed capital, if it plans to establish an operation for the longer term. There is no shortage of funds for working capital in the local financial market place.

The survey reveals that sources of finance are not a major consideration, whereas the availability of foreign exchange is. In this area, from the survey as well, Botswana seems to score well, with the country's major attraction being its position as a centre of peaceful, stable and democratic governance in the sub-region.

7. Quality of Life

ASSETS

Favourable climate - sub-tropical

Good access to health services in Gaborone

Easy access to tourism/wildlife

English Speaking

Good infrastructure

LIABILITIES

Inadequate access to education at primary and secondary levels

Relatively poor access elsewhere

Housing - previously a major problem - has recently become more accessible in major urban areas, but private housing still out of reach of most Batswana

There are few significant negative factors, apart from the difficulties in access to local private education. Outside Gaborone, however, there are few regular forms of social entertainment to suit many expatriates, which reduces the appeal of locating elsewhere in Botswana.

4. INDUSTRY SELECTION

The industries are selected on the basis of an industry by industry analysis, in the light of the above assets and liabilities. Each industry category is examined to see whether the majority of factors are favourable for further consideration. On the basis of such consideration a number of industries can be immediately excluded as unsuitable, while others require further consideration. Those which require further consideration are reviewed to analyze whether or not they could be potentially promoted immediately, or whether their potential development implies some policy or other developments, as considerations precedent. The detailed review exercise is outlined in Annex 2.

In this section, those industries which are proposed for further examination are briefly reviewed and prioritised. The industries selected are divided into those which are potential candidates for immediate development on the basis of existing conditions in Botswana and those which are longer term prospects, where strong potential exists, but the conditions are not yet present for a major promotional drive.

Due to the lack of industry specificity in the survey, it is difficult to use the survey results to any great extent in this section. This underscores the need to carry out further research of a more industry specific character.

Short-term Priorities

Inevitably those sectors which are possibly winners in the shorter term, are those which suit Botswana's present level of skills, technical and scientific development. The most obvious industrial sectors are those which have already established something of a presence in Botswana. The next stage is to look for complementary sectors, so that clusters of similar industries can develop to obtain economies of scale and scope.

The following sectors are identified as initial targets worthy of further examination. They do not necessarily follow the ISIC codes, but may arise from this desire to look for common clusters which could be promoted together.

Textiles

The immediate prospects are largely based around labour intensive, or relatively low skill intensive industries. These include textiles and garments in particular, which has already been the focus of considerable interest. Within the broad sector, knitting makes an attractive option, with more complicated machinery and a degree of skill, the sector makes a natural vertical move from garments, and workers having developed a basic skill level in garment manufacture make a good labour pool for knitting. Interestingly Mauritius followed this path, moving from garments and textiles to become one of the world's major producers of knitted products. While the major promotional focus for this sector has come from the Selebi Phikwe Regional Development Unit, the sector is a very viable one for development in Botswana as a whole.

Other labour intensive niche sectors have been identified, including, for example, the manufacture of watch movements. There are many other niches, some of which are identified in the industrial segments below.

Other major areas that fit this category are in the assembly and packaging lines.

Packaging

There is little clear evidence of companies having relocated or set up their operations in Botswana for packaging purposes alone. There is reason to believe, with a number of packaging materials operations having established in Botswana already, that there is potential for such developments, where the manufacturing or processing of the products to be packaged is taking place in reasonable geographical proximity to Botswana - the Gauteng region of South Africa, for example. This could apply to a number of industrial sectors, including food and beverages, pharmaceuticals, and other household consumer products. These industries may also lend themselves to the establishing of direct manufacturing or processing activities in Botswana. This might develop once the packaging process is well established.

Assembly

Assembly would be one way of adding more value and bringing greater benefit to the economy, than merely creating jobs [which is of course important for Botswana]. There are a number of motor vehicle, mostly truck, assembly plants [from Semi-Knock Down kits], that have established, principally to get around high tariffs for fully made up vehicle imports into the Customs Union. The developments of this sector was also assisted by the availability of some workers with basic mechanical skills. With changes in prospect in SACU, more significant than mere tariff reductions, following South Africa's membership of GATT, as well as SADC, these factors will change. Given that there are enterprises already established, they have some time to attempt to improve productivity to ensure their sustainability, even with the removal of the initial conditions. Whether there is much scope for further expansion in these areas in Botswana is a question of its relative appeal to external investors in the sector, in comparison with South Africa.

There are other types of machinery and equipment assembly, both mechanical and electrical, apart from motor vehicles, which may have potential in Botswana. The key issue is likely to be the level of skill in the supervisory functions. For example, computer assembly would seem to offer a number of possibilities, but it requires a high degree of technical competence among the supervisors, which are required in large numbers relative to the numbers of production line workers. This requirement puts the sector some way down the road for Botswana, with the preliminary requirement being the development of a larger pool of technically qualified and experienced labour to draw from.

The attraction of assembly for the future is that, over time, industries can develop to supply the component parts for the assembly operations, from petrol tank brackets to micro-chips. In this regard, the research revealed that light engineered component manufacture could be bracketed together with assembly, as part of a broad sector for further promotion.

Light Engineering

There are other segments within the light engineering and fabricated metals sectors, which require relatively low skill levels to operate machinery producing goods for sale within the region. One of Botswana's assets in this area, in joint venture with, or as a result of FDI, would be the availability of capital and foreign exchange to acquire the latest machinery and a steady supply of spare parts, which could give it a competitive edge within the region. The same reasons could also favour simple rubber and plastic products, produced by machinery. Where the machinery is competitively manufactured within South Africa, the advantages would be the greatest.

Another broad category within the range of industries that could be promoted within the short term would be the application of the above industry definitions to the production of components for more sophisticated industries. This might include the manufacture of components for the automotive industry. Possibilities here might be cable harnesses, car seats and the assembly of batteries. Other niches could also be identified.

Raw Material Based Manufacture

The final collection of manufacturing industries that could be considered would be those where there are some of the natural resources present within Botswana and which can use a good proportion of relatively unskilled labour as inputs. Some of these again might be related to those industries described above.

These include, for example, the manufacture of buttons from horn and bone, other leather accessories to the garment industry and shoes made from leather, as well as components made from ceramics, glass and other non-metallic minerals and raw materials. This broad grouping would also include certain sections within the jewellery business, possibly utilising Botswana's access to precious and semi-precious stones. In all these areas, while there is potential for initial development to take place at a relatively low skill level, there is also room for the sectors to develop highly skilled niches, with considerably greater value added. In time, such developments could offer considerable potential for export outside of the region, where relatively high value, low volume products become more exportable from a country which experiences relatively high transport costs.

Other

There are a number of other industrial sectors, which do not conveniently fit into the above categories, but seemed in the course of the evaluation to have many of the properties required for their potential development in Botswana.

These include the household/leisure goods industry, including furniture, sporting goods and other relatively high value products, where the basic raw materials are available elsewhere in the region and skill levels are not instantly out of reach. The furniture industry, for example, is already relatively well developed in Botswana, albeit at the small scale end of the production spectrum. This is again a base on which an expanded industry could develop.

Medium/Long Term Prospects

The research revealed that there are a number of industries where Botswana could develop a competitive advantage, by building on its natural comparative advantages, over the medium to longer term. This would require sufficient emphasis being placed on providing incentives and capacity for training skilled human resources, carrying out research and development and other developments.

Tourism

Service industries are also a longer term development prospect for Botswana. These could take a number of forms. The one with most potential is the tourism industry, a sector in which Botswana has unique resources in and around the Okavango delta. Foreign investment might be attracted to set up, in addition to hotels, eco-tourism resorts, conference and retreat facilities, time share developments, golf courses, casinos and theme parks. Service standards would have to be significantly improved in all areas of the public and private sector dealing with the flow of tourists in to, out of and within the country.

Other services which may have longer term potential as skills develop, are in the computer/data processing and financial services area, making use of Botswana's relatively cheap labour resources, compared to western economies and the widespread use of spoken English, one of the major international business languages in the world. There are possibilities for back office, data processing activities, as other centres providing such services around the world become relatively higher cost. The standard of telecommunications service is high in Botswana once the initial installation is completed, yet the relatively inflexible policy attitude of the monopoly provider, means that high tariffs may mitigate against such industrial developments.

Financial Services

This is a much discussed sector at present, in the context of the possible development of Botswana as a regional financial centre. The recent lifting of most foreign exchange controls adds a distinct push to this proposal. It is far from clear how viable it would be in the short to medium term, until local skills are developed and, therefore, of what direct benefit it will be to Botswana. The regional and international demand for such a development is also questionable. It should be examined in detail before any significant public resources are committed to moving further in that direction.

There may be good potential for the development of certain niches at the regional level, such as in the insurance and reinsurance market. The takeover by BIC of IGI could have created a potential regional competitor, which could attract reciprocal competition into Botswana.

Transportation Services

Finally, on the services side, there is longer term potential for Botswana to take advantage of its central location in the region to develop as a transport services centre for Southern Africa. A number of possible developments in the region could create a positive dynamic

for the expansion of the sector in Botswana in the medium term. The opening up of South Africa, moves towards greater economic integration, the construction of container terminals in Botswana and the handover of Walvis Bay to Namibia, together with the construction of the Trans-Kgalagadi Road, all work in favour of this development. In addition, the possibility of establishing a regional strategic grain storage facility in Botswana, mooted in the World Bank study, would also be a contributory factor, should it come to pass.

With a number of foreign-owned companies already operating in Botswana, there is already a critical mass from which to develop this sector further.

Solar Industries

These include the development of industries based on renewable energy sources, in particular solar products.

As the cost of solar energy falls, relative to fossil fuel energy sources, over the next twenty five years [and relative to generators much more quickly], Botswana could aim to be at the leading edge of the development of relevant technologies and products. If Botswana can attain such preeminence in the region and indeed in the world, the potential benefits could be huge. The base of necessary skills has begun to be developed through the Botswana Technology Centre and Rural Industries Innovation Centre (RIIC), as well as in some private sector companies. Foreign investment may be attracted in this area, even in the shorter term, but is unlikely to be of significant volume, until there are indicators of the impending appearance of a centre of excellence. This will require significant national investment and the identification of the sector as a national priority.

These could be developed particularly for rural areas throughout Africa. The only problem here is that the products are being aimed at the poorest market place in the world. The development of cheap solar powered products is appropriate in Botswana, due to the excellent access to sunshine.

Information Technology

There are other manufacturing sectors, which are mentioned in the section above as probably being of too high skill level for the short term. This includes computer assembly for example. Appropriate government support and the creation of an appropriate supportive and enabling environment could assist in making such sectors attractive in the medium term. This could be another catalyst sector for the development of other component manufacturing, as well as software developments for specific small and appropriate niches, based on the development of a pool of expertise in the medium term. The significant spread of computers and blossoming of computer training schools in Botswana in the recent past, gives the basis for this development in to the future. Again, this has been facilitated by the ease of access to foreign exchange, which has enabled the technologies to be imported.

5. INDUSTRY SELECTION CONCLUSIONS

Short Term Priorities

Within the sectors reviewed, certain priorities seem to emerge as follows.

1. Garments

This sector has the attraction of having already established a base in Botswana, having a labour intensive appeal and the attraction of regional and international market potential. There is also the potential for attracting companies from South Africa, looking to relocate, as well as those from outside the region, especially if the productivity level can be improved. Government could significantly assist the potential for the development of the sector if it would sponsor the development of a garment training centre, which could be run along commercial lines, and would relieve the companies of the financial burden of having to bear the full overheads of providing the equipment for training, which can prove prohibitive.

2. Assembly and Component Manufacture

The next priority is to examine other ways to use Botswana's relatively low skill level human resources. This includes promoting light equipment and machinery assembly and associated component manufacture. This sector has also been given a small but significant base, but will be highly cost sensitive and requires further analysis to identify specific target niches.

3. Packaging and Consumer Product Manufacture

This is followed by packaging, with the associated manufacture, or processing of consumer goods, including food and beverages, some plastics, and chemical/pharmaceuticals. In reality this is a number of different industries in one. The niches which would be easiest to develop initially will be those which use sophisticated machinery, but which do not involve highly technical work for the human resources. Equipment and machinery maintenance may be a problem, but could be supported by expatriate labour in the short term.

4. Natural Resource Based Industries

Following this sector are those segments, which can use the natural resources present within Botswana, but may require a higher degree of skill development. These segments include leather products, ceramics, and glass. While none of these are likely to become major industries, they do have potential for significant economic benefit in the longer term, if workers trained under the auspices of foreign capital, eventually develop sufficient skills to establish their own more highly crafted and value added enterprises.

These categories are very broad and lend themselves to certain correspondingly broad investment promotion strategies. The identification of specific niches, such as watch movement manufacture, requires further research and the development of industry profiles, which could be followed up with more specifically targeted strategies.

5. Household/Leisure Goods

This broad sector does not have the potential for cross fertilising economies of scale in the way that some of the above sectors do. Rather it is a collection of specific segments which have some potential for further developments, but in almost every case require at least semi-skilled labour. The furniture industry, and by extension any wood based or fabricated metal products have the advantage of a small base already established.

Medium Term Priorities

1. Tourism

The top medium term priority is tourism, as it builds on existing unique advantages of Botswana, and the remaining steps required for its longer term sustainable development are not beyond reach. There are remaining needs for development in service quality, management skills and infrastructure. The potential for foreign investment in the sector would be in the hotels, entertainment and resort segments. While present government efforts are rightly focused on the indigenisation of the industry, the potential for foreign investment to assist in the sector's development should not be overlooked.

2. Transportation

This is followed by transportation, which will take some time to develop, but has good potential for medium scale development. The development of this sector is contingent on a number of developments, including the further economic integration of the region, development of moves towards harmonisation in the road transport sector, completion of the construction of the Trans-Kgalagadi Road and the opening up of Walvis Bay. In addition, the development of other export-oriented industries in Botswana and the rest of the region, would bring their own transport needs.

3. Financial Services

Finally, financial services developments look possible, but the sector requires further examination to identify the niches which are potential winners. It is also necessary for the present moves towards improved efficiency and service provision in the domestic financial sector to continue as a precursor to attracting significant additional sources of foreign investment.

Long Term Priorities

1. Solar Products

The solar area, which although some way off at present, has the greatest longer term potential. It is hard to conceive of this attracting foreign investment in the short-term, until more local skills are developed. It requires a determined national stance of the kind taken by many of the East Asian countries to develop its longer term potential. The availability of significant national investible resources could be a significant factor in the development

of the sector.

2. Information Technology

Information technology associated industries, on both the manufacturing side and the service side, require significant further developments in human resources to be sustainable and spread the benefits to all, not just expatriates. There may be some medium term possibilities here, as well [bulk data processing, for example], but the sector is less developed than the financial services sector, although it is one where change can happen very quickly. In many ways the factors that influence its growth, skilled human resources and availability of research and development are similar to those affecting the solar industry and it is therefore bracketed with that.

In conclusion, the following chart summarises the recommended priority sectors.

SHORT-TERM

Broad Category	Industry Sectors	Comments
Garments/Textiles	Garments Textiles Accessories (Including Buttons/ Zips...)	Immediate Priority
Assembly/Components	Automotive Light Engineering Electronics Plastics Rubber	Immediate Priority - with further industry profiles
Packaging/Consumer Products	Food and Beverages Pharmaceuticals Plastics Paper/Packaging Materials	Immediate Priority - possibilities for relocation of part of existing South African industry
Natural Resource Based	Leather Ceramics Glass Jewellery	Immediate Priority - unlikely to be major attractor of large-scale foreign investment
Household/Leisure Goods	Furniture Sporting Goods Wooden Products Fabricated Metals	Immediate Priority - with further skill developments

MEDIUM TERM

Broad Category	Industry Sectors	Comments
Tourism	Hotels Entertainment Facilities Conference Centres etc	Up for immediate promotion, as soon as service standards, infrastructure are in place
Transportation	Road Transport Freight Forwarding Transport Insurance Finance	Dependent on certain key developments for significant growth
Financial Services	Banking Custodian Facilities Insurance	Needs further study to identify viable niches and policy changes

LONGER TERM

Broad Category	Industry Sectors	Comments
Solar Products	Energy Generating Rural Focused	Needs significant investment and research and development, as well as education/training, but significant long term potential
Information Technology	Data Capture/Bulk Processing Assembly of Computers etc Software development	Similar to the above, but less natural advantages for Botswana

PART B - THE SURVEY PHASE

6. CARRYING OUT THE SURVEY

Drafting the questionnaire

The questionnaire was drafted in order to ascertain a number of different factors surrounding the decision whether to invest or not and if so, where. The questionnaire [see Annex 3] accordingly contained questions regarding:

- business detail information: current investment activity within the Southern African region, the purposes of the investment and how it was established
- investment information sources: the sources of information and efficiency of its provision and other assistance
- investment criteria: specific factors affecting the company's decision regarding its selection of investment target, and a guidance as to the most important thereof.

The overall emphasis of the questionnaire was to obtain information which would be of use to Botswana in improving its understanding of the needs of potential investors, in order to improve its ability to market effectively to them. Thus, it was geared to companies that had seriously considered investing in the region and then actively taken a decision to invest or not to invest. In order to make the results of reasonable contemporary relevance, the companies selected would ideally have gone through such a process within the last five years.

Given the difficulty in identifying companies that had been through the process up to the point of considering investment, there was also the possibility that companies were conducting some other kinds of business in the region, such as product distribution, subcontracting or consulting, but would nonetheless have opinions about potential investment in the region and their company investment decision-making processes.

The other critical factor, borne in mind when drafting the questionnaire, was that it should be kept reasonably short in order to encourage responses.

Delivery of the questionnaire

Due to difficulties in identifying sufficient numbers of companies in other regions/countries, it was decided to limit the survey to American companies. A total of 83 companies were identified as having had some preliminary investment or other business interest in the Southern African region. The region was taken as comprising the SADC countries, including

South Africa.⁷ The companies were selected from:

- Deloitte Touche specialised industrial databases
- US Commercial Visitor's Profile
- Participants in the 1986 Botswana Investment Promotion Mission to the USA
- Other data bases held by TIPA and other organisations within Botswana, concerned with inward investment promotion

These companies were in many sectors, including manufacturing, engineering and consulting firms, importers and international banks. The questionnaire was mailed to them.

For each company a corporate decision maker was identified in an area related to taking investment decisions. Typically, they were involved in international operations, exporting, corporate finance or new business development.

A total of 39 companies responded by mail or telephone, with widely varying degrees of consistency and detail. Where possible, companies were contacted by telephone to clarify vague answers or areas of uncertainty. The telephone contact gave the opportunity for a more qualitative set of responses to emerge, which gave some additional colour to the written responses.

The difficulty in eliciting responses to the questionnaire and getting individuals willing to provide clarifications is, in itself, an indication of the fact that at present the possibility of investing in Southern Africa was not high on the US corporate agenda at the time of the delivery of the questionnaire. Since, with South African President Mandela's successful tour to the US during the latter part of 1994, this may have changed to some extent.

⁷At the time that the survey was carried out, South Africa was not yet a member of SADC. Tanzania was excluded, as being too far away from Botswana, and arguably mainly serving a different regional market.

7. SURVEY RESULTS

Approach to Interpreting the Responses

There are a number of useful insights that can be extracted from the survey results. The report on the results in full is attached as Annex 4. In order to maximise the usefulness of the results, they are interpreted in the light of the overall marketing objectives lying behind the survey. The results will be presented as follows:

- information regarding the nature of investments undertaken: including geographical location, industry sector, nature of investment/business, reasons for interest in the region, markets to be served, type, size and financing of investment
- information regarding the sources of information: including most popular and useful sources and suggestions for improvement
- information regarding investment criteria, including those most frequently cited
- general recommendations for the improvement of Botswana's image as a potential location for direct investment and private enterprise development

In the following analysis section, the results will be used to present an overview of their implications for improving Botswana's marketing strategy to encourage foreign direct investment, as well as an action plan for implementation of the recommendations.

In the subsequent section, the need for further work and study to improve areas of information deficit will be recommended.

Nature of Investments/Businesses

Type of Interest

Very few of the surveyed companies had proceeded actively with direct investment, with a number of others conducting other business activities in the region, including:

- product distribution and sales
- participation in engineering and construction related projects
- consulting and new business development services

There have been recent indications in the South African press, that there have been quite a number of firms that have made some sort of direct or indirect investment in South Africa, since the April 1994 elections, although the nature of the investments and sectors concerned are not known. Elsewhere it was reported in October 1994, that over the previous twelve months there had been 62 new US investors or returning investors in South Africa, with a particularly high percentage in the information technology sector [22 of the 62], and others

in sectors such as food processing, tourism and financial services. In addition, there were reported to be another 400 plus companies with non-equity links, which provides a pool of potential future investors in the region.⁸

Many of the respondents [62 %] did not indicate having any type of current business activities in the region. The final wording of the questionnaire, regrettably, did not allow for an appreciation of which of those companies had taken an active decision not to invest directly or to conduct other forms of business activities.

There was a broad spread of sectors, with those having direct investment interests including companies manufacturing hair care products, providing tourism services and undertaking other manufacturing activities. Those involved in sales and distribution are in computers, aircraft, overland vehicles, industrial pumps, heating and air conditioning products, and pharmaceutical.

Geographical Considerations

The reasons for their interest in the Southern African region amongst those companies already invested included access to markets and political stability. Amongst those others interested in the region, physical and land access to markets was the most important factor, with political stability and availability of local partners also important. Others mentioned by very few respondents [less than three] included expanding trading links, availability of trainable labour, infrastructure, tax incentives, environmental cleanliness and access to raw materials and cheaper labour. No firms cited being interested in avoiding competition in other markets,⁹ or local production to reduce costs or avoid tariffs.

This information failed to adequately distinguish between the reasons for looking at making foreign investments in general, which might include access to markets, and the reason for selecting Southern Africa, or the particular country, which is more likely to include political stability, or availability of local partners.¹⁰ It also gives us little information as to why companies would consider making direct investments, as opposed to merely attempting to market and distribute their products.

Most of the companies, which responded to the question, indicated that Botswana was one of the countries that they had considered for their business interests in the region, but this result is likely to be due to biases built in to the method of selecting the companies. Furthermore, it appeared that many of the companies which had considered Botswana were service oriented, rather than manufacturing. This in itself provides an important indicator

⁸ Information extracted from an IRRC report on investment in South Africa [quoted without their permission].

⁹ to some extent the objective of improving access to markets subsumes the avoidance of competition elsewhere

¹⁰ In both cases where political stability was cited as one of the reasons, the country invested in was Botswana.

of the sectors with which Botswana is likely to achieve greater success. South Africa, Zambia and Zimbabwe were the other countries most frequently cited, with several firms indicating that they had considered more than one alternative.

Markets

The interest in accessing markets as a motivating factor for investment is clearly an interest in serving regional markets, rather than domestic or international. This implies that the interest is in conducting business in the region as a whole, which clearly makes the choice of location dependent on particular country factors, other than the size of domestic markets. Having suggested this there was some indication of interest in serving domestic and international markets as well.

Structure of Business

The main type of investment considered was a joint venture structure, with a limited interest in wholly owned operations. There was no interest in taking over an existing business. Some interest was from companies which had been investing in South Africa and had withdrawn within the previous five years, possibly as a result of sanctions. Those firms which had established some form of investment were all joint ventures.

There was also an interest in establishing distributorships through licensing or sales agreements. Some of these had also been established.

There was an even split as to whether the potential investors were interested in raising working capital and long term financing locally, or in providing their finance from outside the region. Most companies were considering investments below US\$5 million, with half of those below US\$1 million, and only one considering a larger investment. The only company that responded to how they had actually financed their investment, indicated that a mixed source was being used.

Information Sources

Typically, it seems that companies use a variety of sources when trying to obtain information for a potential investment project. The main ones used across the region, in order of frequency, are personal visits by company representatives, trade promotion offices and consultants. The target country embassy is also used and was cited as far and away the most useful source. The other three sources mentioned as most used, were seen to be equally useful. USAID and the US Embassies, as well as publications, were also indicated as being of some use. The least cited as useful was chambers of commerce.

In the case of Botswana, in particular, publications and the Botswana Embassy were as important as visits, with consultants and the trade promotion office [TIPA] slightly less used. BOCCIM was the least used. The publications and the Embassy were also seen to be the most useful as well, with consultants and visits slightly less useful and BOCCIM the least useful.

In the rating of the most satisfactory handling of the requests for information, Botswana attained a very good rating, with the publications most frequently cited as being "excellent". Overall, the target country embassies were generally rated as very good, while the trade promotion offices on average were only good. In Botswana's case, TIPA and consultants were mentioned as excellent sources.

In Botswana's case there seems to be room for improvement in responding to companies with specific technical information requests. Examples included:

- health service information, for the possible establishment of a regional blood centre - a Gaborone hospital had not been able to help and no other source of information was suggested
- an information source for medical equipment in use in Botswana was also not identified
- information on demand for industrial pumps and irrigation/drainage needs was also not obtainable

Understandably, in these areas the normal trade offices and embassies were unable to help themselves, but also seemed unable to identify and follow up on providing alternative sources, which could assist.

Investment Criteria

The following table shows which factors were most frequently and less frequently cited as the most important investment criteria in each major area.

MOST FREQUENT

LESS FREQUENT

Physical Resources

Quality of water
Telecommunications
Cost of utilities

Raw material access and cost
Water supply
Access to land
Land/Buildings cost

Human Resources

Availability of labour
Access to education
Access to training
Managerial experience

Entrepreneurial culture
Work attitude
Labour relations
Labour cost
Labour laws

Physical Resources

Government attitude towards investment
Ease of obtaining work/residence permits
Licensing requirements
Exchange controls

Corporate tax levels
Monetary/fiscal policies
Profit/income repatriation
Customs duties/surcharges

Geography Location

Proximity to ports
Land access to Southern/Central Africa

Access to air/freight services

Market

Access to North America

Access to SACU/PTA/Europe

Political/Financial/Economic Environment

Stability of democracy
Currency stability
Availability of foreign exchange
Tax concessions

Stability of financial services system
Labour incentives
Export incentives

Quality of Life

Quality of health services
Favourable climate
Quality of education

Access to leisure facilities
Access to tourism facilities

Of the most favoured factors, the top criteria, in order, are physical/land access to the region's markets, stable democracy, good infrastructure, access to training and tax concessions. These are followed by availability of managerial experience, currency stability, availability of local partners, entrepreneurial culture and access to raw materials.

At this stage the main thing to note from this list is that the most favourable factors for Botswana fall into the access to regional markets, the Political/Economic and the Quality of Life categories, while the least favourable are the concerns about utility costs and access to ports. Other than that the need for access to North America is not surprising considering that the questionnaire was delivered only to US companies.

One problem with this section of the questionnaire is the difficulty of judging what were the most critical decision criteria, as to whether to proceed or not.

General Recommendations for the Improvement of Botswana's Image

Recommendations in this category were in many cases obtained during the telephone-follow-up with the companies surveyed. They will be presented as a series of sub-headings.

GENERAL INDUSTRIAL DEVELOPMENT ISSUES

Develop a more focused view on industrial development

This would involve a clearer statement of Botswana's industrial development objectives, which would assist in the promotion of its positive investment features, as well as the development of more targeted incentives for specifically selected and desired industries. US companies desire to know that their company would fit into a clear long-term national development objective for their particular sector.

The need for an industrial strategy, to which particular potential investments could be directed, was seen, in particular, given the need to compete with Asian countries with already developed industrial bases. Against the potential background of such a strategy for manufacturing industries, there would also be potential for promotion of investment in related service industries.

Develop industry specific investment incentives

This relates to the need for a specific industrial strategy. The indications are that US companies respond more favourably to countries that offer packages of investment incentives, which are suited to the needs of their sector. These might include availability of training facilities for the industry, tax incentives relevant to the income and expenditure patterns of the sector and specific export incentives.

Tax incentives, in particular, are generally desired and should provide the investor with an easy start-up period, geared to the likely timescale for adequate development in the particular sector, which would foster a longer term commitment to the country.

HUMAN RESOURCE ASPECTS

Encourage the local entrepreneurial spirit

This is necessary to provide an adequate supply of the much sought after joint venture partners, and to foster a greater number of local business men attempting to diversify the local industrial base. This is particularly important for attracting small US companies, which would not have access to the necessary resources to undertake a wholly owned operation. In one quote, it was indicated that more than US\$430 billion of American trade originates from companies employing less than 20 employees. With trade frequently being a precursor to investment, there is enormous potential scope for expanding a direct investment role for these smaller US companies.

Commitment to labour needs

The need for providing trainable labour and skilled management for potential investors was re-stressed as being of considerable importance for attracting investors. This can be done more successfully against a clearly articulated industrial strategy, which would provide guidance as to which sectors to provide basic training for.

MARKETING ASPECTS

Designate an industrial spokesperson for Botswana in the US

Despite the presence of a variety of useful information sources, it was felt that there could be additional advantages to be derived from having a representative in the US who would be familiar with the investment advantages of Botswana and who would work on actively promoting the image of Botswana to US companies. The person should ideally know how to market and sell to US companies and be familiar with the typical US corporate investment decision making processes.

With a more targeted strategy, such a person would be invaluable in being able to implement approaches to particular companies in specific sectors.

Promote investment advantages more clearly

With two very clear investment advantages, namely political stability and access to regional markets,¹¹ it was suggested that these could be marketed aggressively to promote Botswana, in particular, as a regional centre for distribution and sub-contracting. As most US companies do not tend to consider an investment decision until they have either exported or sub-contracted with a local producer, such a strategy could be the precursor to obtaining a more favourable investment response. The initial trading relationship would allow the US company to better determine the longer term potential of the region for a particular product or service.

In addition, the favourable tax and regulatory environment and other specific investment incentives could be promoted more clearly and explicitly.

Deal with negative issues more effectively

There may be a number of false or inaccurate perceptions which pertain in the US, for example the impression that personal safety and security is very poor in Southern Africa affects the willingness of US companies to send their experienced and managerial staff to the region. While this impression may not be true for Botswana, it is negatively affected by association with other parts of the region.

With the new political dispensations and peace agreements in the region, this impression can be changed over time. In the meantime, such concerns should be taken into account when marketing and promoting investment to US companies.

¹¹ this access is rather more limited to PTA countries, than SACU ones. While this was not a problem in the past, as most of the countries had severe shortages of foreign exchange, that situation has changed rapidly in the recent past with the implementation of liberalisation and other policy reforms. There is now much greater potential demand within the region, outside SACU. This has been evidenced by the rapid increase of manufactures from South Africa, now being exported to the PTA countries.

Develop a list of potential local joint venture partners

Such a list seems to be required for possible joint investments, as well as possible sub-contracting and distribution arrangements as a first stage of potential cooperation. An up to date list of current producers and potentially viable entrepreneurs should be maintained and available for use as a marketing tool.

Such a list could also be used by government in Botswana in developing its strategy. In particular, this information could be used as part of a process of identifying the technical and managerial strengths of the target sectors, as well as their needs in terms of training and other requirements.

Provide better institutional support to potential investors

In many cases it appears that there was a lack of follow-up to company enquiries or, as noted above, to requests for technical information.

With an industry strategy, which leads to the identification of specific target industries, there would be the possibility of supplementing the existing publications with industry specific data, including the list of possible distributors, sub-contractors and joint venture partners.

There should also be more specific facilitation of visiting businessmen, especially those that are perceived to be considering investment, or other direct business ventures. This could include meeting them at the airport, helping to arrange meetings, transport and accommodation and designating a possible contact person, to assist with any questions and local information needs.

8. ANALYSIS AND INTERPRETATION OF RESULTS

In this section, the above results will be analysed and interpreted in order to extract lessons for the future marketing strategies to improve the promotion of foreign direct investment into Botswana. The survey results also flow into the target industry selection exercise carried out in the earlier part of the study.

There are a number of policy related recommendations that are closely related to the marketing issues analysed here. They are reviewed and discussed further in Annex 5.

Marketing Related Analysis

GENERAL APPROACH TO INVESTMENT PROMOTION STRATEGY

Encouraging consideration of the need to invest in the region¹²

Recent media reports have given mixed signals about the interest in investment in the Southern African region from the US. In late September/early October 1994, the Business Day in South Africa was reporting that the initial burst of enthusiasm following the opening of South Africa had slowed and that investment funds targeting South Africa were having trouble attracting investment and raising finance.¹³

This impression is supported by the findings of the survey, which showed that a very small percentage of the firms that had responded [less than 10%] had taken the decision to invest. This impression is further strengthened, when considering that more than half the companies to whom the questionnaires were sent, did not bother to respond at all.

Given this presently observed general lack of interest in investment in Southern Africa, it may be necessary to make some effort to market the idea of the region as a whole as an attractive investment location. This could be done at a regional level, through SACU and SADC mechanisms, as well as by exhorting Botswana's regional partners to take a broader regional perspective in their foreign investment promotion efforts.

Given that the major reason for considering investment outside the home country appears to be increasing the access to markets, it would be essential to demonstrate up front the size, absorptive capacity and buying power of Southern Africa as a whole. In this respect, the ongoing efforts to promote economic integration should be highlighted and statistics made available, giving a region-wide picture of the potential market. At the same time, such a promotion effort could consider how to deal with the negative perceptions of the region,

¹² All the analysis in this section should be treated with some circumspection, as the company survey was based on US companies alone, and their views and demands may not be the same as potential investors from other parts of the world.

¹³ See articles in Business Day, September 27, 1994 "Lack of US investors baffles US fund" and October 7, 1994 "Investors gauge Africa's promise".

especially regarding safety and security, that may exist elsewhere.

Use could also be made of successful or best practice case studies, illustrating the benefits that particular recent foreign investors, for example Owens Corning, have derived as result of their investment decision. This could become an important part of the promotional efforts.

Botswana as the number one destination in the region

Against the above general background, there could be a strong focus on the second tier benefits offered by Botswana in particular, which make it [one of] the most attractive destination[s] for investment in the region.

In this respect, the survey informs us that there should be particular focus, in descending order of importance on:

- political stability
- good access, especially to the South African market as a result of SACU membership
- high quality infrastructural connections with the rest of the region, facilitating that access
- high primary and secondary school enrolment figures, and ongoing efforts to improve skills and productivity, providing a good pool of trainable labour
- tax and other investment incentives
- environmental policies
- availability of raw materials locally and within the region.

In the marketing efforts, the need would be to play up the positive aspects, while limiting the potential damage caused by the negative. These latter ones might include: availability of local managerial experience, availability of local partners, and strength of local entrepreneurial culture.

A number of policy considerations become of importance here, for example it would be difficult to promote the substantial availability of joint venture partners at present, but this may be possible in the future, with the adopting of a well-designed policy framework.

Targeting Industries and Foreign Companies

The Botswana government's efforts to promote inward foreign investment, to date, have generally been well received by the companies that have made some investigation. In general, however, it has not targeted particular companies or particular sectors, except perhaps for the work done in Hong Kong and South East Asia and in one or two other cases. The marketing has generally been of a passive nature. As a result, companies have not been drawn to view Botswana in any particularly favourable light, except as a result of their own efforts.

The general impression emerging from the responses is that if the government wishes to significantly gear up its marketing efforts this will have to involve more effort to make carefully selected target sectors attractive and, then, to seek out particular companies within

those sectors and sell Botswana to them.

The need to try this has a number of direct and indirect implications:

- developing a clear cut industrial strategy [see policy issues below], which prioritises rationally selected target industrial sectors and sub-sectors for development
- developing industry profiles for each of the priority targets, so that the precise needs of firms in those sectors can be ascertained. The marketing can be directly aimed at addressing the needs and show how well they could be satisfied by investing in Botswana. The development of profiles can also feed into the design of more appropriate incentive structures to be formulated on a sector specific basis [see policy issues below].
- gaining access to information about the investment patterns of the market leaders in the target industries. Other companies can then be targeted based on the best practice of the top companies in the various industries.
- obtaining listings of all the companies in the target sectors in a range of countries, which have potential investors. The focus should especially be on countries from where there are already investors, as this enhances the "example" value to peer companies.

In order to achieve the last point, it is recommended that for each target industry, a prioritised list of countries be made available with the assistance of the commercial attachés, as a precursor to identifying the companies. In this regard, it is considered generally advisable, where possible to look within the region first, especially to South Africa. Current efforts under way within SADC to negotiate trade promotion and finance and investment protocols, this should become a more attractive prospect.

The industry selection exercise in the first part of the study is a small step in the direction required for the first of the above activities. The survey indicates that emphasis should be placed on industries with the potential to serve the regional market. Less emphasis should be given, in the immediate future, to sectors which require local managerial expertise and skills which are not presently available, and for which there are at present no plans to establish specific training facilities.

Develop list of local joint venture partners

This recommendation should be adopted, as it seems that the general pattern is of investors looking for potential partners. Given the present shortage of an adequate supply of local partners, this should not be limited to Botswana only. It should also be extended to include the possible establishment of partners from elsewhere in the region, with non-regional investors, who could be persuaded to locate, for example their regional headquarters, or part of their operations in Botswana.

This sub-section highlights the need to develop the local entrepreneurial capacities and

capabilities, which can not be dealt with directly here, but will be mentioned under the policy aspects below.

IMPLEMENTATION OF THE STRATEGY - INSTITUTIONAL CONCERNS

Passive or Active

In the recent past, for the most part, Botswana's efforts to elicit foreign direct investment have been more easily characterised as 'passive' rather than 'active'.

It seems from the responses that the general impression created, once enquiries have been made, has been a positive one, but that Botswana is still not well enough known to its potential investors in the US. To overcome this in an un-targeted manner would be a very large-scale exercise, requiring a significantly expanded institutional capacity and involving considerable expense.

With a more targeted strategy as suggested above, Botswana would be able to conduct a more pro-active marketing campaign, without having to significantly expand its existing institutions.

The second area of concern is the perception of less than adequate follow-up to enquiries received and visits made. This seems particularly true when the enquiries are of a technical nature. The present culture appears to be of a passive "pass the buck" nature. This must be changed. Consideration should be given to establishing a single focus of authority with overall responsibility for investment promotion 'from cradle to grave' and which is ultimately accountable for seeing that everything that is possible, within reason, is done to satisfy potential investors' information needs. At present, there is an impression that potential investors may fall through the holes in the system, as they get passed on from one agency to another.

This proposal should not be interpreted as suggesting that such a development can take place over night, or that the holding of the responsibility or accountability should imply that the responsible authority should carry out all the relevant work itself. The institutional capacities have to be developed over time and the responsibility and accountability can only be passed over at a time that the designated institution is sufficiently capable. In the meantime, efforts should be continued by all the relevant players, with the emphasis on improving coordination, inter-institution communication channels and the sharing of information.

For implementation of a more pro-active strategy on this side, an itemised action plan should be followed for every potential investor, which includes a number of standard steps following the initial enquiry, geared to the investor making the all-important and useful first visit. Following that, there should be a regular schedule of diarised contacts to be maintained until it is clear that there is no longer any investment prospect from the target company. At that stage there should be some analysis of the reasons for failing to secure an investment, which should periodically be fed back into the system, with a view to making overall improvements.

Information Sources

Following on from the above, the information sources should be designed around the recommended more pro-active strategy.

At present, it seems that the most useful sources are those which are first confronted, namely the publications and the Botswana Embassies. Thereafter, the utility declines steadily, with the institutions which should be assisting with post-visit follow-up less frequently cited as most useful. These include TIPA, despite it getting an 'excellent' rating under the request handling section, and, although its role in this area is debateable, BOCCIM.

Putting this impression into sales parlance, the attention is well captured and the initial interest cultivated, but there is little effective effort to build desire or move towards closing the deal. Quite clearly this part of the overall campaign needs significant improvement.

If this general view is then put against the background of a more targeted promotion campaign, then the need to have more specialised expertise and information sources available for the target sectors, also becomes a priority. This is particularly important given the need for improvement in the provision of technical information.

Institutional Responsibilities

It seems that there is demand for a single authority or agency to be more firmly in control of the investment promotion activity, at an overall coordinating level. As noted above, this can only work effectively, if the institutions endowed with such responsibilities have sufficient implementation capacity. One of the oft-quoted and key characteristics of the East Asian success stories is that they had strong, competent and capable public institutions, staffed by well qualified and motivated individuals.¹⁴

At present, once TIPA has received enquiries, they are passed on to other agencies and TIPA may take little further action. It is often the commercial attachés in the Embassies who attempt to ensure that adequate follow-up has been made. This is an important role and the Embassies are rewarded by being ranked highly. On the other hand, it is reported that there are also incidences where the Embassies attempt to hold on to their contacts too long and seem to be unwilling to share information - for example on possible joint venture partners.¹⁵ It is clearly not sufficient to leave the locus of responsibility with the Embassies, as they will not be able to coordinate effectively across the target sectors, or gain the experience of handling potential investors from other regions. The commercial attachés presently have a very broad portfolio of duties, which does not enable them to achieve the necessary expertise or specialisation in investment promotion. There is a clear and urgent need for capacity enhancement here, as well.

¹⁴ See, amongst many others, Brautigam, D. "What can Africa learn from Taiwan? Political Economy, Industrial Policy and Adjustment", *Journal of Modern African Studies*, 32, 1, 1994, 111-138 and Chang, Ha-Joon, 'The Political Economy of Industrial Policy', London, Macmillan, 1994.

¹⁵ Personal communication from BDC staff.

The natural choice for the central role player would seem to be TIPA. This need not mean that it should handle all activities itself, but it is in the best position to coordinate, maintain a database and follow-up with other agencies. It would also be the best positioned to arrange to manage the proposed list of local joint venture partners and to improve the handling of potential investors [see section below].

This will undoubtedly require some capacity building within TIPA. There have already been recommendations made in this regard and work is in progress with this goal in view.

It should not be interpreted that the proposed addition in responsibilities would involve a major increase in the physical resources available to TIPA, but the financial allocations may need more of a boost. Much of the sectoral specialist expertise that would be required to target particular sectors effectively, could be provided by consultants hired in on an as-required basis. There should also be serious consideration of hiring outside expertise from the target countries to become industrial spokespersons on behalf of Botswana, assisting the commercial attachés.

Handling of Potential Investors

Most of the issues here have been mentioned above. In particular, there is a need for the following:

- provision of more targeted information for particular sectors
- greater facilitation of visiting businessmen with interest in developing investment projects
- greater assistance with trying to sort out queries and questions, especially those of a technical nature
- cultivation of a portfolio approach to handling clients, where individual TIPA staff are targeted to particular sectors, with the support of outside consultants as required, and nominated as contact persons for particular clients. These contact persons should be responsible for follow-up and, together with the relevant commercial attaché, should be the "face of Botswana" to the potential investors. Notwithstanding this, all TIPA investment staff should be able to handle the general support and promotion activities.

The latter recommendation should not preclude other agencies and institutions having direct contact with potential investors. It is better to have a case of "the more contact the merrier", rather than a situation of investment enquiries falling between responsibilities and getting ignored. What is important, however, is that there is some awareness at a national level of the types of contacts and the types of referrals that have been made. Thus the contact person should be responsible for ensuring that at all times there is one institution or another which is in active contact with the potential investors, but until capabilities are more developed, perhaps little more than that.

There is a fine balance here, which may be difficult to maintain, as the search for joint venture partners, for example, may involve the disclosure of sensitive business information, so the level of active coordination will in some cases have to be more limited than others.

The issue requires further careful analysis.

These recommendations will require a certain amount of training and capacity building for TIPPA and the relevant existing staff, as well as possibly, some expansion of the staffing complement. The first stage in pursuing implementation would be to carry out an institutional capacity building and training needs assessment.

Implementation Action Plan

The following lists of activities are proposed to lead towards the successful implementation of the above recommendations:

- liaise with other SADC and SACU members to draw up a plan to promote inward investment across the region, including:
 - identification of an appropriate body to coordinate
 - development of a marketing plan, including consideration of holding a region-wide inward investment promotion 'event', or series of 'events'
 - production of promotional materials, including statistics and 'best practice' experience case studies
 - dissemination of materials
 - implementation

Timescale: Short to Medium term

- revise Botswana's investment promotion and marketing efforts, including promotional material, to place more emphasis on the perceived important investment criteria

Timescale: Immediate

- improve the targetting of key sectors in which Botswana has comparative advantage, or the potential to develop a competitive advantage, including:
 - development of key industry profiles, to improve understanding of the key needs of each sector and to develop industry specific marketing plans
 - gain access to information about the investment patterns of the market leaders in the target industries
 - development of a prioritised list of countries for each target industry,
 - development of target sectors for each target country, for initial focus of promotion effort
 - identification of key target companies in target countries
 - development of a clear cut industrial strategy focused on the target sectors

Timescale: Immediate to Short term

- develop a list of local and regionally based joint venture partners, with specification of preferred sectoral interests

Timescale: Local - Immediate
Regional - Short to Medium term

- develop a more pro-active investment promotion strategy, including:¹⁶
 - adoption and implementation of plan to reform TIPA, with implementation of capacity building programmes, based on clear assessment of institutional and individual needs
 - development and implementation of complimentary needs driven programme to train and develop the capacity of commercial attaches
 - clarification of relationship between TIPA and other agencies involved in investment promotion activities
 - nomination of TIPA as agency responsible for central coordination of investment promotion efforts
 - development of standard check list of activities for all new potential investors encountered
 - coordinated development of itemised action plans for each target sector, country, potential investor etc. showing the expected inputs and outcomes from the work of each component agency or organisation

Timescale: Immediate to medium term

- develop a monitoring and evaluation system to maximise benefits of learning from previous experiences and to ensure constant feedback of experience data into revising work programmes

Timescale: Immediate

- proposed monitoring and evaluation system to be supplemented by periodic reviews of investment promotion strategy and practice, to include all agencies involved in the promotion effort

Timescale: Short term

- develop a database of available specialised expertise and information sources for target sectors

Timescale: Immediate to Short term

- improve handling of potential investors, through:
 - provision of more targeted information for particular sectors
 - greater facilitation of visiting businessmen with interest in developing

¹⁶ The proposals in this section are not to be followed in strict order, as some of the later activities can and should be implemented, before the institutional capacity is developed much more than at present. A more detailed action programme needs to be developed, following a needs based analysis of the existing institutions.

- investment projects
- greater assistance with trying to sort out queries and questions, especially those of a technical nature
- cultivation of a portfolio approach to handling clients within TIPA and improved liaison and coordination with other agencies handling potential investors

Timescale: Immediate to Short term

9. FURTHER INVESTIGATIONS REQUIRED

This section reviews the recommendations made above and lists a number of further possible studies, investigations and analyses which might be required. Those listed are those which fall beyond those required in the direct implementation of the more practical and immediate recommendations. Thus, the need to develop a standard investment promotion enquiry follow-up task list, or a standard format for the proposed periodic strategy review is not noted.

This list is by no means intended to be exhaustive.

Marketing Side

In order to implement the proposed recommendations made above, the following studies might be considered:

- SADC/SACU study for a regional investment promotion strategy and implementation plan
- development of industry profiles for proposed key target industries commencing with those for short term development
- target industry related study of potential local and regional joint venture partners - this study would have to be very carefully handled, as it would contain potentially confidential information. It should be linked to private sector initiatives to establish corporate information exchanges - for example for those interested in buying into or selling shares in ongoing businesses, which are presently being developed in South Africa.
- institutional needs assessment analyses of all organisations, or parts of organisations involved in investment promotion activities
- based on the above the development of institutional capacity building and strategic training plans

Policy side

There are a great number of possible studies which could be followed upon this side [see Annex 5]. The following are some of the more high priority ones.

- Botswana industry strategy study
- comparative review of incentive packages and relative cost and efficiency structures by target industry grouping
- comparative land transport efficiency study

- local entrepreneurship development study
- trade and investment policy integration study
- studies of proposed future regional trading arrangements [following above]
- study for proposed regional FDI policies and harmonisation proposals [against background of above]

AN OVERVIEW OF SOUTHERN AFRICA'S TRADE AND INDUSTRY PATTERNS

This section provides a brief overview of the industrial sectors, which were the biggest net importers into the SACU area during 1992. This information [from South African Trade Statistics, 1992] will provide some guidance as to where efforts could be focused to gain the greatest possibility for financial reward by import substituting at the sub-regional level.

The two industrial categories with the most significant net imports were machinery and vehicles with greater than R16 billion and chemicals with over R3 billion, although the largest component was organic chemicals at R1.5 billion. All other sectors were small in comparison. Within these sectors a great deal of the imports are likely to be machinery and other capital equipment for manufacturing, as well as intermediate products, many of which would fall outside the areas perceived as having potential for development in the above section. A more detailed list of the net importing segments is given in Annex 2.

Of interest are the following specific sectors [with their respective net imports]. Leather Goods R74 million, Footwear R234 million, Books and Paper Products R383 million, Plastics Products R920 million, Ceramic Products R267 million, Glass and glassware R199 million, Clocks and Watches R108 million and Toys Games and Sports Equipment R236 million. Of course these figures on their own explain very little, but at least in all these areas there is potential for further development.

Most interestingly, there was a net export of hides and skins of R230 million and of paper pulp of R960 million, as well as R758 million of wool and animal fibres and fabrics. These figures indicate that there is considerable room for downstream processing and adding greater value in these areas.

In another study [South African Industrial Performance and Structure in a Comparative Context, Raphael Kaplinsky, July 1992], it was noted that a number of South Africa's light industries were underdeveloped compared to those in countries at a similar level of development. These included plastics, transport and electrical machinery, as well as textiles, footwear, apparel and non-metallic minerals. It was also noted that there had been a decline in labour intensive sectors and by international standards, productivity was low.

INDUSTRY BY INDUSTRY ANALYSIS

The following pages are devoted to the brief analysis of each industry. The analysis is confined to manufacturing and service industries.

MANUFACTURE OF FOOD AND BEVERAGES

Description

This industry concerns the production and processing of meat, fish, dairy, fruit and vegetable, oil and fat products and the manufacture of grain, bakery, pasta and other food products. It also includes the manufacture of beverages, including alcohol and soft drinks. It does not include the growing and rearing of the agricultural and livestock ingredients for the industry. It does not include packaging when done on a fee or contract basis.

Assets and Liabilities

While Botswana has limited natural resources of its own to supply the industry, it has good access through SACU to the inputs. Segments where Botswana is able to produce the raw materials itself, like beef, game, edible veld products [morula, moretlwa and marotse melon], would form the best basis for development. The industry is not a highly skilled one, so the human resources could be easily developed. The products could serve regional markets in close proximity, although foods and beverages are relatively low value to volume products and may not serve so well in overseas markets.

This sector is a potential target requiring further examination. The Food Technology Research Centre, under the Botswana Technology Centre is researching many areas of food processing. It can provide information for potential investors.

MANUFACTURE OF TOBACCO PRODUCTS

Description

This includes the manufacture of all tobacco based products, but does not include growing and preliminary processing of tobacco leaves.

Assets and Liabilities

Zimbabwe grows tobacco and could supply the raw materials. This is not a highly skilled industry. There are doubts about developing a tobacco industry at this time, given the world-wide concerns about smoking and the contraction of the industry in the West, although there is likely to be a good market in easy access within the region. The Zimbabwe industry already has a good base and it may be difficult to compete.

This sector is not a promising candidate for further study.

MANUFACTURE OF TEXTILES/ WEARING APPAREL

Description

This industry includes spinning and weaving of textile fibres, weaving of textiles, finishing of textiles, manufacture of made-up articles, carpets, rugs and apparel.

Assets and Liabilities

Access to raw materials is possible from neighbouring countries, in addition to some raw silk production and the possibility of cotton production [various projects in preparation] in Botswana, and even from outside the region [as some of the established companies have done]. High utility costs mitigate against this to some extent. The human resources are easily available, skill levels are not high and with the focus on the industry in the country already a pool of trained labour has been developed, although productivity levels are still below international levels.

With good access to European and American markets through Lome and MFN status, there are good market based reasons to favour the apparel industry, in particular. The policy and economic and financial environment does not present any major hurdles, although difficulties with access to land may mitigate against rapid and timely expansion. The industry is highly sensitive to cost. The impending establishment of a garment industry training centre in ... will provide additional support for this potentially dynamic industry.

A small supplement for the textile industry would possibly come from the production of buttons from cattle horns and bone for the regional market [horns can also be used for the manufacture of other small items].

It remains a candidate for promotion. While to date there has been little effort to do more than compete in the international pool and try to be a low cost producer. With the creation of a niche for Botswana products, there may be a longer term future for the development of the industry.

LEATHER PRODUCTS

Description

This includes tanning and dressing of leather, manufacture of luggage, handbags, saddlery and footwear. It excludes production of raw hides and skins [production of meat products] and manufacture of leather apparel and hats [manufacture of textiles/ apparel].

Assets and Liabilities

This is one industry with natural resources available in Botswana. The only problem at present is that the beef hides are not processed sufficiently for final product processing. BMC is in the process of upgrading its tannery. There are also possibilities for limited expansion of the processing of game skins and hides. Human resources are present and there are some skilled traditional tanners who could be used to train others. There would be a need to upgrade skills, however, to develop a highly specialised production capability for high value products. Market access is again good, as with textile products. With high value goods, the transport cost burden becomes more manageable. Again the likely problem will be access to market awareness to respond timely to changes in taste and fashion.

The major problem at present is a market structure which keeps the export structure of wet-blue hides higher than further processed crust or finished leather.

It must be a candidate for further examination.

MANUFACTURE OF WOOD AND STRAW PRODUCTS

Description

This industry includes the sawing and planing of wood, manufacture of wood, cork, straw and plaiting materials, including doors, carpentry, wooden containers, tools, mats and baskets.

Assets and Liabilities

There is limited access to the raw materials for timber based products in Botswana and her neighbours, which could be used in the production of veneers, parquet flooring and hardwood doors. There are also supplies of reeds for the manufacture of baskets and mats and with cultivation supplies could possibly be increased. Otherwise there are few impediments to the development of the industry. The development of this sector is dependent on securing adequate cheap supplies of raw materials.

This does not appear to be a likely candidate to attract foreign investment.

Review of Experience

There are a number of timber companies aimed at the domestic construction market.

MANUFACTURE OF PAPER AND PAPER PRODUCTS

Description

This includes manufacture of pulp, paper and paperboard, paper containers, carbon paper and toilet paper.

Assets and Liabilities

As with the timber industry the raw materials are not available in large volumes in the region. Also water and electricity are important inputs to the industry and their cost mitigates against a successful industry developing. Otherwise there is nothing in principle against the development of the industry apart from the natural resource deficiencies.

There may be some merit in examining this sector further, given its close links with packaging, which may be required for other industries.

Review of Experience

A number of companies are specialising in different segments.

PUBLISHING, PRINTING AND RECORDING

Description

This includes all activities related to publishing, whether or not related to printing, printing and service activities related to printing, as well as reproduction of records, audio, video and computer tapes, floppy hard or compact disks and film duplicating.

Assets and Liabilities

The problems of raw materials of the paper industry, also affect the potential for the printing industry. Likewise there are relatively few creative sources in Botswana to establish a major industry in reproduction of any sort of material [written, audio, video or computer]. It is difficult to start up such a community from scratch. Having noted that there is a continual stream of publications [magazines, periodicals] that gets started up in Botswana, but mostly do not last long.

On the human resource side there is a shortage of the trained technical skills that would be required and the level of skill is relatively high for the audio, video and computer segments. The Government Printer has trained a number of Batswana in printing over the years. Furthermore, the lack of intellectual property laws may reduce the security of the products of the industry. There are definitely advantages for the development of regionally based industry segments in Botswana from the viewpoint of availability of local capital for investment and the quality of life for the development of an artistically oriented community.

This industry cannot be discounted entirely, but does not look like a winner, except for small niches.

Review of Experience

There are a number of subsidiaries of international publishers present. There are a number of companies producing stationery and custom printing for the local market.

MANUFACTURE OF COKE, REFINED PETROLEUM ...

Description

This industry includes the operation of coke ovens for the production of coke or semi coke from hard coal and lignite, coal tar and pitch, as well as the production of liquid and gaseous fuels.

Assets and Liabilities

Apart from the Serowe coalfields, there are no raw materials in Botswana. The quality of the Botswana coal is fairly low. With large supplies also available in the region, even serving the regional market is unlikely, let alone aiming at the international market. Government is intending to investigate the possibility for a significant expansion of the Morupule power station, which may have some spin-offs in this industry.

There is an investigation underway for the potential to produce more easily consumable coal briquettes for domestic purposes.

There are no clear reasons for examining the industry further at this stage.

Review of Experience

Apart from the distribution of coal for domestic purposes by Morupule power station, there has been no development of this industry.

MANUFACTURE OF CHEMICALS AND CHEMICAL PRODUCTS

Description

This includes the manufacture of basic chemicals, fertilisers and nitrogen compounds, plastics in primary form and synthetic rubber. This group also includes the manufacture of pesticides and other agro-chemical products, paints, varnishes, pharmaceuticals, soaps and detergents, perfumes and other products, such as explosives, essential oils, photochemical products and inks. Finally it includes the manufacture of man-made fibres.

Assets and Liabilities

Raw materials could be accessed within the region, with locally available Soda Ash from Sua Pan being an important input for the detergent industry and salt for the chemical industry and tallow for the production of soap and candles. The more labour intensive parts of the industry could provide a useful entry into the industry over time. Many aspects of the industry require high levels of electricity and water, which mitigates against its longer term development on a large scale. Scientifically and technically qualified staff are required for the development of products and the maintenance of plant and equipment, which also implies a long lead time, or the heavy use of expatriate labour in the short term. There is a large marketplace in the region, if products can be produced at a good price. Local capital could enable a large industry to be established if viable.

There are no good reasons for the writing off of this industry at this stage. Soap does have limitations, however, as the result of cheaper tallow available in Namibia, the relatively high travel cost content to regional markets, the high cost of imports into Zimbabwe since the devaluation.

Review of Experience

There have been a number of chemical oriented companies established in Botswana, although mainly oriented to the local market. There are a number of representatives of foreign cosmetic companies present, which could develop vertically, if enough demand was present in the region.

MANUFACTURE OF RUBBER AND PLASTICS PRODUCTS

Description

This industry includes the manufacture of rubber tyres and tubes, retreading of tyres, and other rubber products [pipes, hoses, belts]. The group also includes the manufacture of all types of plastic products, excluding the manufacture of plastics in their primary form and other products falling in other groups [sports equipment, toys, linoleum].

Assets and Liabilities

The rubber industry is in a similar position to the chemical industry, with no immediate access to the raw materials. There is a steady stream of tyres available for retreading. Utility prices are likely to be a problem, but otherwise the country is likely to be in a good position. With a good number of people trained in the automotive industry, the tyre market has a good partly-trained labour pool available. Vertical integration may be possible.

The plastics industry is also in a similar situation. There are probably stronger possibilities for the processing of raw plastic into intermediate and consumer products. Intermediate products could be used as components, or containers for packaging [for example] in other industries. The industry is not particularly labour intensive. The training requirements would be considerable.

The industry requires further investigation.

Review of Experience

Botswana Tyre Corporation are retreading tyres and there are a number of other tyre companies, which are repairing tyres and have the potential for expansion. To date, the focus for both rubber and plastics has been largely on the local market. There are a number of plastics companies manufacturing.

MANUFACTURE OF OTHER NON-METALLIC PRODUCTS

Description

This includes the manufacture of glass and glass products, clay and ceramic ware and products, cement, lime and plaster and their products, stone products and other non-metallic mineral products [asbestos, glass wool, asphalt].

Assets and Liabilities

There are a number of ingredients present in Botswana, including quartzite sand, soda ash and dolomite [limestone] for the glass industry, clays for ceramics and brick-making, cement and stone. There are a number of areas of this industry, which are quite labour intensive and relatively low skilled. With good natural resources and Botswana's availability of capital for investment in human resource development, the industry could acquire sophistication over time. There is a regional market place, and with the development of higher skilled products [glassware and ceramics especially], there could be markets available internationally.

In the past there was a project proposal for the production of quicklime from local limestone.

This group definitely seems to be a candidate for further examination.

Review of Experience

There has been a great deal of focus on manufacturing inputs for the local construction industry, in particular brick moulding.

MANUFACTURE OF BASIC METALS

Description

This industry includes the manufacture of primary iron and steel products, basic precious and non-ferrous metal products (including gold, silver and platinum and smelting/refining of copper and nickel and other non-ferrous metals and manufacture of basic products) and casting of iron and steel and non-ferrous metals.

Assets and Liabilities

With few resources in this field, apart from copper/nickel, there is little possibility for further development of primary metal processing. This would only change if new mineral deposits were discovered. High utility prices are a longer term problem.

This sector does not appear to be high priority, at present.

MANUFACTURE OF FABRICATED METALS

Description

This group includes manufacture of structural metal products, tanks, reservoirs and containers of metal and steam generators. It also includes forging, pressing, stamping and roll-forming of metal, treatment and coating of metals, as well as manufacture of cutlery, hand tools and other fabricated metal products.

Assets and Liabilities

There is access to processed metals for manufacturing into final products. Within Botswana this is limited to copper/nickel, but other metals are available elsewhere in the region, for example iron and steel from South Africa and Zimbabwe. There are a number of enterprises established in the sector and so a pool of trained labour is being created. The regional market is available for a wide range of products and lower volume higher value products could be exported internationally, if available at competitive prices. There is a need to find niches for export and to examine ways of vertical development of the copper/nickel industry. The only major impediment here is Botswana's relatively high utility prices.

Botswana has experience of managing and executing projects involving large inputs of plant and technologically advanced machinery.

This sector seems to warrant further investigation.

Review of Experience

There are a number of companies processing metal into finished goods, largely for the local market.

MANUFACTURE OF MACHINERY AND EQUIPMENT

Description

This includes manufacture of engines, turbines, pumps, compressors, taps and valves, bearings, gears, ovens and furnaces, lifting and handling equipment and other general purpose machinery. It also includes manufacture of agricultural and forestry machinery, machine tools, machinery for mining, quarrying and construction, as well as machinery for food, beverage and tobacco processing, textile, leather and apparel production, weapons and ammunition and other specialised purposes. The industry also includes manufacture of domestic appliances.

Assets and Liabilities

This industry would be a natural extension for the fabricated metal industries, but without the skills required for that industry, this one is more for the longer term future at present. There are niches again which could be developed. Particularly the lower skill areas, where an abundance of relatively cheap labour serving the regional market could be utilised. An example could be the assembly of agricultural equipment, including tractors [the idea has been suggested before], especially given the recent development of the closely allied motor vehicle assembly sector in Botswana. There is not the scope for the heavier ends of the industry and there are nor the volume of other industries in Botswana to serve as the basis for manufacture of machinery for such industries. There may be some possibility for assembly of machinery and equipment for industries elsewhere in the region. There may also be the possibility for the manufacture of components as inputs into machinery and equipment made elsewhere in the region. There may also be the possibility for research and development into the production of appropriate machinery and equipment for low income rural areas, which could lead to the development of a regionally oriented manufacturing capacity.

With high utility prices and heavy taxes on the importation of the capital equipment required for manufacturing, this is not an obvious choice, except where the products do not require heavy inputs of electricity and water.

There may be grounds for looking at this sector further.

Review of Experience

There has been little development of this industry to date in Botswana.

MANUFACTURE OF OFFICE, ACCOUNTING AND COMPUTING MACHINERY

Description

This industry includes the manufacture of typewriters, photocopiers, computers and accessories. It does not include the manufacture of some components and electronic toys and games.

Assets and Liabilities

This is a relatively high skill area, and without even a well developed maintenance capability locally, there are insufficient skilled resources. The raw materials situation is the same as for the metal manufacturing industries. There may be niches where the local market can participate, for example in computer assembly, where the final products are relatively low volume and high value. Again there may be the opportunity for component manufacture, where Botswana's few natural resources provide the basis for such developments. This is likely to require research and development to discover such segments.

There are some reasons to look at this sector further.

Review of Experience

Again there has been little development of this sector. There is a company which has attempted to assemble computers, but has cost problems, due to the small size of its operations not capturing the economies of scale in a very competitive industry.

MANUFACTURE OF ELECTRICAL MACHINERY

Description

This includes the manufacture of electrical generators, motors and transformers, electricity distribution and control apparatus, insulated wire and cables, accumulators primary cells and batteries, electric lamps and lighting equipment and other electrical equipment [including electrical components for the motor vehicle industry].

Assets and Liabilities

The scenario here is largely similar to that for computers. There would be a heavy demand for imported skills in the early stages of establishing the industry which would mitigate against it as a priority. Again it is a question of finding the right niche to serve the regional market place and possibly developments of products aimed at the low income rural sector may be such a niche. At present, the region imports a great deal of equipment in the electrical arena. There may be possibilities for manufacture of components and assembly in the region. The industry includes the manufacture of components for the automotive industry. If Botswana manages to maintain a presence in that market, the manufacture of some components should be possible.

This is a possible candidate for further examination.

Review of Experience

A number of companies operate in this field.

MANUFACTURE OF RADIO, TELEVISION AND COMMUNICATION EQUIPMENT

Description

This group includes the manufacture of electronic valves and tubes, television and radio transmitters and apparatus for line telephony and telegraphy, television and radio receivers and sound and video recording/reproducing apparatus.

Assets and Liabilities

The same considerations apply here as to the electrical machinery sector. There are inputs available in the region, so assembly may be a possibility, or component manufacture. Development of low cost radio sets incorporating solar power cells could be a viable option for the regional market, for example.

With the solid development of telecommunications services in Botswana, there may be the opportunity for developing the manufacture or assembly of small components [electrical items, cheap handsets], especially in a cheap and appropriate manner, especially for rural telecommunications in the region.

This would not appear to be a high priority sector, but there may be some niche possibilities.

Review of Experience

There are a couple of companies assembling radios.

MANUFACTURE OF MEDICAL, PRECISION AND OPTICAL INSTRUMENTS, WATCHES

Description

This includes the manufacture of medical appliances and instruments and appliances for measuring, checking, testing, navigating, optical instruments and photographic equipment and watches and clocks.

Assets and Liabilities

Another highly skilled sector, which requires a great deal of precision engineering. Given the high skill levels required, this would seem to be a sector for the future. Development could begin through assembly of some items in the shorter-term.

This is another sector, which does not seem immediately attractive to Botswana.

MANUFACTURE OF MOTOR VEHICLES, TRAILERS ...

Description

This industry includes the manufacture of motor vehicles and bodies, trailers and semi-trailers, parts and accessories for motor vehicles and their engines, excluding electrical equipment for motor vehicles.

Assets and Liabilities

Another sector which has possibilities for assembly and component manufacture. This is largely in response to the relatively large number of technicians who have been trained in Botswana and represent a pool of retrainable labour. The products are aimed at the regional market. The regulatory environment is not conducive as South Africa has decided to change the rules in the Customs Union, which has effectively crippled the emerging assembly industry in Botswana. Component manufacture may be a way around the restrictions.

If it is felt that the restrictions will not be a decisive factor, this would be a sector to examine further.

Review of Experience

There are a number of truck assembly and one passenger car assembly plants making up from semi-knock down kits and a few component companies already established.

MANUFACTURE OF OTHER TRANSPORT EQUIPMENT

Description

This group includes the building and repairing of ships and boats, railway and tramway locomotives and rolling stock, aircraft and spacecraft, motorcycles, bicycles and hand and animal propelled vehicles.

Assets and Liabilities

The economies of scale required for these type of industries mitigate against most of the segments being established in Botswana. The possible areas are in the low cost transport products, especially those with a rural focus, including bicycles and animal drawn vehicles.

This is unlikely to be a major growth industry for Botswana.

Review of Experience

There are a couple of companies investing in bicycle manufacture/assembly, including Aloeridge Enterprises and Pedal Power Cycles, with one company in Maun building boats [Power Serv].

MANUFACTURE OF FURNITURE, JEWELLERY, SPORTS GOODS, TOYS ...

Description

This includes the manufacture of furniture [unless made from ceramics, concrete or stone], jewellery, musical instruments, sports goods, games and toys and other goods [including pens/pencils, umbrellas, brooms, linoleum, candles].

Assets and Liabilities

There are sufficient raw materials for the furniture industry and some trained carpenters and metal workers. Some other segments in the grouping have some semi-skilled labour, which could be developed further. Again there are raw materials available either in the country, or in the region, which could be used as the basis for developing segments in this group. Some segments like jewellery and musical instruments are relatively low volume and high value and would get around the transportation problems. Jewellery also has a potential boost from local reserves of semi-precious stones and, eventually if marketing conditions change, diamonds. To gain economies of scale in many of the more highly crafted areas, it would be necessary to aim at the international market, while furniture and umbrellas, brooms etc could be aimed at the regional market. As the areas of timber production are far from the urban areas, there may be a problem for the quality of life. in establishing the plants close to these sites.

This area should merit further examination, as it offers many niches, where Botswana could develop into a major supplier, it also offers the opportunity for developing a capability at a relatively low skill level, which can become more sophisticated as skills develop.

Review of Experience

There are a number of wood and metal furniture manufacturing operations. There are a couple of diamond cutting and polishing operations which have recently commenced operations in Botswana, with the possibility of further expansion into jewellery manufacture. In addition, another jewellery factory, is in the pipeline.

RECYCLING

Description

This includes the recycling of metal and non-metallic waste and scrap, to produce output fit for further processing.

Assets and Liabilities

This is relatively low margin business and requires access to large volumes of material to be recycled, which Botswana does not have. It is difficult to see this developing except on a small scale.

One project that has been examined in the past is the recycling of used oil in Gaborone, where the major transport organisations are located.

LAND TRANSPORT

Description

This includes transport via railways, and other forms of land transport [passenger and freight] and transport via pipelines.

Assets and Liabilities

With Botswana at a central location within Southern Africa and the building of the Trans-Kgalagadi Road giving access to Walvis Bay, the country is set to become a major cross roads within the region. This should enable the country to continue to develop its land transportation capabilities. This is much more likely in the road transport sub-sector, as a focus for foreign investment. There are few serious impediments to this, although there is a need to develop the skills of drivers and mechanics. Furthermore, as with any business trying to develop in Botswana, there is a need to develop managerial and marketing skills. The existence of bilateral road transport agreements with many neighbouring countries and efforts to harmonise road transportation within SACU and SADC, also bode well for future development in this sector.

The sector is already fairly well established, but as with textiles, may not benefit significantly from further study, unless allied to the development of a major new operation in Botswana, which would require considerable transportation services.

Review of Experience

There are a number of trucking operations already established in Botswana, some are subsidiaries of South African companies.

AIR TRANSPORT

Description

This includes scheduled and non-scheduled air transport of passengers and freight.

Assets and Liabilities

The scheduled services are monopolised by Air Botswana, with private companies only being allowed to operate on routes Air Botswana is not interested in. The non-scheduled passenger services provided mainly to service tourism in the north of the country is a potential growth area, as tourism develops. The tourism sector appeals to an international market. The sector is very heavily dependent on expatriate labour. There is a need to develop local pilots and mechanics/engineers in particular.

Given the relatively low volumes of exports requiring rapid evacuation, there is little prospect of developing a major freight transport industry by air. There have been plans for some time to increase the size of the cargo facilities at Sir Seretse Khama airport, which has yet to be implemented. This may give the freight side of the industry a boost.

This could be looked at further in the context of an examination of the tourism industry.

Review of Experience

There are a number of small charter companies operating in and around the delta, as well as across the rest of the country.

SUPPORTING AND ANCILLARY TRANSPORT ACTIVITIES

Description

This grouping includes the storing, warehousing and handling of cargo, operation of terminal facilities, activities of travel agencies, tour operators, tourist assistance activities, freight forwarding and other transport agency activities.

Assets and Liabilities

This sector has also developed to some extent providing a pool of skilled labour, but the capacity for further expansion is closely tied to the development of other sectors. Botswana Railways has been intending to develop container terminals in Gaborone and Francistown for a long time. This would enable imported goods to come to Botswana in sealed containers, only clearing customs in Botswana, or remaining in bonded warehouses. Alongside the terminals themselves, container freight stations are to be developed by the private sector. This development would benefit the warehousing and freight forwarding industry.

There is an idea mooted in the World Bank study to develop a Strategic Regional Grain Reserve in Botswana, although with Botswana not being one of the region's major grain producers, this may not be that attractive, although the attraction should be to put it out of the reach of local political pressures.

There have been a number of travel agencies and tour operators established in Botswana, not always successfully. Again the further development of the tourism industry would benefit this sector. Government is in the process of gearing up its support for the tourism sector. This is a priority area for the country.

This grouping certainly has further development potential and merits examination, although unless the tourism development is on a regional basis, it is difficult to see Botswana providing services to the region, in the way that the trucking industry might.

Review of Experience

There are many freight forwarding operations established in Botswana and there is a fledgling association of freight forwarders. There are a number of tour operators based in Maun, although many operate from outside Botswana.

POST AND TELECOMMUNICATIONS

Description

This includes post and courier activities and all forms of telecommunications.

Assets and Liabilities

At present this sector is dominated by the parastatals Botswana Postal Services (BPS) and Botswana Telecommunications Corporation (BTC). BPS offers very cheap services. Private courier companies such as DHL are in operation. There are also signs that the regulatory position on the monopoly of telecommunications services is changing, with private companies supplying pagers and able to sell handsets. The provision of cellular telephone services is also likely to involve the private sector. BTC has a relatively advanced service provision, albeit at relatively high rates. With its ambitious human resource development programme, BTC is developing a pool of skilled resources for itself and associated services.

It is difficult to see the potential for an export oriented development here, except for the possible utilisation of BPS to provide postal re-expediting services, as a centre for bulk mailing. Starting from sorting and franking this could move to higher value operations such as generating and printing bills or other statements of account. This would require the postal services to expand its employment base and run double or triple shifts to avoid having to significantly expand its facilities. Alternatively it could be contracted out to organisations set up especially for the purpose.

Review of Experience

There are a number of private companies supplying and maintaining paging units. A number of private companies are in competition with BPS's Expedited Mail Service.

FINANCIAL INTERMEDIATION

Description

This includes activities of banks, discount houses, savings banks, leasing, other credit granting, securities investment services and intermediation [but excludes dealing].

Assets and Liabilities

With its strong currency and substantial foreign exchange reserves, Botswana has a good basis for the development of the financial services sector. Relatively good, albeit expensive, telecommunications are another plus. It is rather lacking in the skilled resources, however, and the remaining foreign exchange controls mitigate against the development of an "offshore" banking centre. The development of this sector would require a longish lead time to develop and train the necessary personnel. The sector's establishment could be accelerated by the importation of a large percentage of staff from outside - which present impediments continue to deter. With increasing competition being promoted by government in the local banking market, there have been significant upgradings of the training given to bank staff recently and so the basis is there to be developed further.

The recent removal of the most of the remaining exchange control restrictions, has provided the potential for attracting of business from South Africa, as firms from there seek finance to expand elsewhere in the region. Companies investing in South Africa may also choose Botswana as their domicile, with the freer exchange control regime.

Offshore banking requires some further reforms, including the removal of withholding taxes and reserve requirements, as well as having effective banking controls and supervision. Once the necessary conditions are in place, there would be scope for a number of other services, including custody and portfolio investment services. Botswana has a great deal of attraction as a secure regional base for such operations.

Manual operations like cheque clearing may be considerably cheaper in Botswana for South African and European Banks.

This sector would merit further examination.

Review of Experience

There are a number of foreign parented banks operating already. There are a number of leasing companies, as well as a merchant banking operation.

It has recently been reported that CitiBank is considering establishing its regional headquarters in Botswana.

INSURANCE AND PENSION FUNDING

Description

This includes life and non-life insurance and pension funding.

Assets and Liabilities

At present the insurance market in Botswana is closed to outside competition and there are three companies operating an effective cartel. There is space for another company to enter the market to provide more competition. With a liberalisation of the foreign exchange regulations, Botswana could provide reinsurance services to the region. With the strong currency and sound financial position of the country there would be potential for a significant expansion. The present companies have training programmes, which would have to be expanded significantly to develop the industry further.

Pension funds are developing fairly quickly within the country led by the major corporates. To date government has not established a pension fund for the public sector employees. It is more difficult to see the establishment of this sector as a provider of services to the region, although with liberalisation of forex controls across the region, there may be possibilities for agencies to provide management services to more than one country. Such agencies could establish in Botswana, as an attractive regional centre.

There are segments to examine further in this group.

Review of Experience

The two existing companies all reinsure outside the country for everything except the smallest risks.

There are a number of pension funds which have been established.

COMPUTER AND RELATED ACTIVITIES

Description

This includes hardware consultancy, software consultancy and supply, data processing and data base development, data storage and data provision. It also includes the maintenance of office, accounting and computing machinery.

Assets and Liabilities

There are a number of computer companies operating in Botswana, mostly as agents supplying hardware and software to the local market. With a large pool of computer schools having established, there is a rapidly increasing base of computer semi-literate people, who could be trained further. Having noted that, there is still a significant deficit of skilled resources, both on the software development and hardware maintenance side. Alongside ongoing education and private sector efforts, government has set up a sub-committee to the Government Computer Steering Committee to identify the national training needs and draw up a national training plan, which should assist in alleviating the shortage over time. With the recent introduction of packet switching services the technological capabilities are being developed for Botswana to become a regional or international data processing centre.

The development of Botswana as an on-line centre for UK [Europe] has been proposed in the World Bank Study. It is noted that this would probably require the installation of dedicated satellite communication lines and fault-tolerant computer systems, which would have a significant cost.

Additionally, with continued development of computer literacy and skills in Botswana, the country could become a centre for European and North American companies which are developing or refining computer applications, where that involves generating millions of lines of computer code.

This sector requires further investigation.

Review of Experience

There are a number of suppliers present, some of whom do minimal software development [usually of programme applications]. A number of consultants offer computer software development.

RESEARCH AND DEVELOPMENT

Description

This includes basic research, applied research and experimental development drawing on research and/or practical experience. The distinguishing feature is the presence in R&D of an appreciable element of novelty.

Assets and Liabilities

While there are a number of organisations trying to develop new and appropriate technology products, they are finding it difficult to operate on a commercial basis. There is scope for Botswana to use its capital base to develop a centre of excellence/leading edge in particular niches, which could become a catalyst for attracting investment around the core of the focus of the R&D, in the same way that Silicon Valley developed in California. A possible suitable locus for such developments would be the applied use of renewable energy sources [especially solar power with Botswana's good endowment of sunshine] and their application to low cost products for rural environments in the Africa region. This would require government to take a long term view, perhaps in partnership with a number of foreign organisations, as skills are in great shortage in this area, although there have been some skills created through the existing institutions.

Review of Experience

The Botswana Technology Centre and Rural Industries Innovation Centre [RIIC] have been carrying out some R&D in the areas alluded to above.

OTHER BUSINESS ACTIVITIES

Description

This includes legal, accounting, tax consultancy, market research, business and management consultancy, architectural, engineering and other technical activities, advertising, recruitment, investigation and security activities, cleaning activities, photographic activities, packaging activities [on a fee or contract basis] and others.

Assets and Liabilities

Most of these services are likely to be focused on the local market alone and be difficult to expand across the region, when their establishment in Botswana has usually come from elsewhere in the region. This is particularly true given the continuing shortages of skills in most of the areas. This situation can change rapidly, however, and already Botswana is producing more lawyers than it needs at a junior level. The environment and good telecommunications makes Botswana an attractive regional centre for international consulting organisations.

One area which could perhaps provide a useful service to the rest of the region would be the provision of packaging activities on a fee or contract basis. This is essentially an unskilled activity, where Botswana's relatively cheap labour [compared to South Africa and elsewhere outside the region] could provide an incentive for companies to find sub-contractors for part of their operations in Botswana. The main problem is the relatively high transport costs, which together with the necessary establishment costs might outweigh the advantages. It might be better for companies to establish their own packaging operations in Botswana, or to do it only for products which are being exported to Botswana and South Africa's northern neighbours and might have to pass through Botswana in any case.

There are niches to be examined further.

Review of Experience

While each sub-sector has organisations established in Botswana, they are mostly focused on the Botswana market alone. A number of consultancy operations do some work elsewhere in the region, as well.

THE SURVEY QUESTIONNAIRE

The following pages are devoted to the questionnaire. The emphasis of the questionnaire was to obtain information which would be use in improving the understanding of the needs of potential investors.

Botswana Investment Locator Study

June 1994

I. Survey Objectives

The Botswana Development Corporation (BDC) conducted a survey of the U.S. business community to obtain comments on their current investment activities in the Southern African region and the investment and business potential of Botswana. Countries included in the survey were Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe, with particular emphasis on participants' views of Botswana. The survey results will provide important information to BDC as to how Botswana could improve its investment promotion strategies and techniques so as to encourage greater U.S. participation in the local industrial sector.

A. Survey Format

The survey format consisted of three areas of information:

1. Business Detail Information: current investment activity regionally; the purpose of their investment project, and how it was established;
2. Investment Information Sources: each participant was asked to comment on their sources of investment opportunity information.
3. Investment Criteria: specific factors affecting the company's ability to identify a viable investment project or location and those factors of critical importance to

establishing a venture in Botswana or the region.

It is important to note that the survey questions were written primarily to obtain information about a U.S. company's current investment activity in the region. Often companies did not have any investment projects underway nor were they contemplating any investment activities in the immediate future. Therefore, participants were asked to comment on whether they were conducting any type of business activity in the region, such as product distribution, subcontracting or consulting services, and to provide their views as to the investment potential of the Southern African region and particularly Botswana. An effort was made to ask each company representative to respond to the specific written questions. Participants with no investment regionally provided comments regarding their investment decision-making.

B. Survey Participants

A total of 83 surveys were mailed to a targeted list of participants. A total of 39 companies responded in writing or by telephone. Participants included manufacturing, engineering and consulting firms, importers, and U.S. banks with international offices. For each company, a senior corporate decision-maker or business owner was identified as the participant. Corporate representatives were typically involved in international operations, exporting, corporate finance or new business development. Specifically, the companies were selected as a result

of their preliminary investment or business interests in the region or as a result of their potential for regional business interests. A mailing list was prepared by Deloitte Touche ILA Group and included companies targeted from:

- o Deloitte Touche specialized industrial databases
- o The U.S. Commercial Visitors' Profile
- o Participants in the 1986 Botswana Investment Promotion Mission to the U.S.

II. Survey Results

The following results are based on the responses provided by 39 companies.

A. Business Detail Information

Question #3: Where Does Your Company Have any Direct Investment in Southern Africa?

Three companies indicated that they have current active investment projects in the region. One company is currently manufacturing hair care products in Botswana, one company is involved in tourism and travel in Botswana and a third company has established manufacturing facilities in South Africa and Swaziland. The third company had, however, considered Botswana as a potential location. Respondents not currently invested in the region but conducting other business activities responded as follows:

- o Product Distribution and Sales: 7 respondents are actively distributing through direct sales of airplane and overland vehicles, industrial pumps, candy and computer software, and one-man back hoes.

- o Engineering and Construction Firms: 3 respondents are currently involved in engineering and construction related projects in the region.
- o Consulting Services: 2 respondents are involved in providing consulting services or new business development services in Botswana and the region.

The remainder of the respondents did not indicate any type of current business activity.

Question #4: What Type of Operations Do You Have In These Countries?

Respondents currently active in the region were asked to identify their type of business operation. The following responses were recorded:

- Travel/Tourism
- Computer Software Distribution
- Export Promotion Offices (2)
- Commerical Aircraft Sale (2)
- Overland Vehicles Sale (2)
- Back hoes, Assembly and Distribution
- Manufacturing of Hair Care Products
- Consulting (3)
- Industrial Pumps Distribution
- Engineering (2)
- Distribution of Pharmaceuticals
- Distribution of heating and air condition products

Question #5 Why Did you Become Interested in Investing in the Southern African Region?

Respondents indicated why they had become interested in the region for investment. While a majority of the companies were not currently invested in the region, a number of them did indicate why they were attracted to the region for other business ventures. The three companies currently invested in the region indicated their primary investment interest as follows:

- o Company #1: Travel/Tourism Investment in Botswana
Primary Reason: Political Stability
- o Company #2: Hair Care Products Manufacturing in Botswana
Primary Reason: Local and Regional Markets; Political Stability
- o Company #3: Manufacturing in South Africa and Swaziland
Primary Reason: Access to Markets

The most frequently mentioned reasons for becoming interested in the region were as follows:

Access to Markets	16
Political Stability	6
Trading Links	3
Availability of Local Partners	5
Trainable Labor	2
Tax Incentives	1
Infrastructure	1
Environmental Cleanliness	1
Easier Access to Raw Materials	1
Access to Cheaper Labor	1

Question #6 Are There Any Other Regions You Considered for Investment Apart from Southern Africa?

Participants were asked to comment on whether they had considered other regions of the world for their investment projects. While several of the companies are active worldwide in the area of manufacturing and engineering services, a number of respondents provided comments regarding their specific regional investment interests:

Region	# of Responses
West Africa*	6
Russia/NIS	5
Pacific Basin	5
Western Europe	4
Latin America	3
Middle East	2
East Africa**	2
Seychelles	1

*West Africa: Nigeria (3), Ghana (1), Ivory Coast (1),
Senegal (1)

**East Africa: Kenya (1), East Africa (1)

Question #7: In Southern Africa, was Botswana one of the Countries You Considered for Investment?

Companies were asked to comment on whether they had considered Botswana as an investment location. Seven (7) companies responded that they had considered Botswana as a potential investment location while two (2) companies indicated they had not considered

it. The companies responding yes to Question #7 were in the areas of health and medical care, management and training services, manufacturing and engineering consulting.

Question #8: Which Other Countries in Southern Africa Did You Consider for Investment?

Companies considered a number of Southern African locations at one time when deciding how to begin an investment or business activity in the region. A comparison of responses indicates that Botswana is cited most frequently as a potential investment or business location, with South Africa and Zimbabwe most frequently considered after Botswana. The responses were as follows:;

Country	Number of Responses
Botswana	10
Lesotho	2
Malawi	1
Mozambique	3
Namibia	5
South Africa	7
Swazilandd	2
Zambia	6
Zimbabwe	7

Several respondents indicated multiple locations under consideration.

Question #9 What Markets Did you Initially Intend to Serve with This Investment?

Responses support the findings of Question #5 which indicated that a majority of companies were seeking to access regional markets.

Responses show the following:

Markets Intend to Serve	# Responses
Domestic/Regional	6
Regional/International	2
Domestic/Regional/International	1
Domestic	1
International	1

At the same time, the region does appear to offer the potential for international distribution of a product.

Question #10 What Markets Do You Currently Serve With This Investment or Distribution?

Since a majority of the respondents do not have investments in the region but do distribute their products, it was important to capture their comments as well. Companies show that they are currently serving the regional market and in two cases are using the region to serve international markets. The following responses include companies invested or distributing a product:

Markets Served	# or Responses
Regional	7
Regional/International	2

Question #11 What Sort of Venture Did You Intend to Establish and
Question #12 What Sort of Venture Did You Actually Establish?

Respondents support other information collected in the survey that joint venture investment projects are more frequently considered viable than wholly-owned investment projects. Three companies stated that they intend to establish joint ventures while only one company expressed interest in establishing a wholly-owned facility. No company indicated that they intended to complete an investment project through an acquisition. Three companies want to establish distributorships through a licensing or sales agreement only. Five companies stated that they had pulled out of South Africa over the last four or five years and in two cases would be interested in returning to the region. A major cosmetics company, for example, expressed an interest in re-establishing a wholly owned facility in South Africa.

When asked what type of venture was established in Question #12, companies stated again that three (3) joint venture projects had been established while three (3) distributorships had been formed. No wholly-owned or acquisition projects were completed.

Question #13 How Did You Intend to Finance This Investment?

Companies indicated a preference for the use of local working capital and long term financing while two companies use full foreign funding sources. The following information was provided by respondents and include companies currently invested in the region or with investment interests.

of Respondents How The Company Intends to Finance the Investment

2	Full Foreign Funding
1	Letters of Credit
3	Working Capital Locally and Long Term Financing

Question #14 How Did You Actually Finance This Investment?

Only one company responded to the question as follows:

# of Respondents	Actual Financing
1	Debt Capital Local/International

Question #15 What Is the Approximate Size of Investment Your Company Made?

The three companies indicating that they had established an investment project regionally estimated their projects at \$1 million to \$5 million. Companies considering an investment project responded as follows:

# of Respondents	Value of Potential Investment (\$millions)
3	\$0-5 m
3	\$1-5 m
1	\$5 m

B. Information Sources

Question #16 How Did You Try to Get Information For each of the Countries Considered For Investment?

Responses indicate that when a company goes about collecting data for an investment project, the investor typically uses a number of sources in each country. Data shows a predominant use of personal

visits as well as the use of consultants to provide in-country information. Once in the country, investors appear to use the trade promotion offices of a country as a resource as well as the target country embassy. The top three sources of information used in the region were : visits (13); the trade promotion offices (12); and consultants (10).

In the case of Botswana, the top three sources of information used by investors were: publication (3 responses); visits (3); and the the Botswana Embassy (3). Potential investors used consultants less frequently (2) as well as the U.S. Embassy (2) and the Trade Promotion Office (2). USAID (Other) was also consulted for investment information. The least likely to be consulted in Botswana was the Chamber of Commerce (1).

Question #17 Which of These Sources of Information Was the Most Useful?

In a comparison, for example, of all regional countries, the most useful source of information for the potential investor was the target country embassy (20). Three information sources were cited as the second most useful source of information: the consultant (10); the personal visit (10); and the trade promotion office (10). USAID was cited by five respondents in the "other" category as a useful source of investment information while the U.S. Embassy received four responses. Publications also received four responses while chambers of commerce were considered the least useful (1).

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Information sources for Botswana show that the two most useful sources were the Botswana Embassy and publications. Consultants and personal visits were slightly less useful and, again, the chambers of commerce were the least useful.

In comparison, the most useful sources of investment information about South Africa was the target country embassy (4) and personal visits (2). All other sources received no responses or only one response.

Question #18 How Satisfactory Was the Handling of Your Request For Information By the Sources You Used?

To help in the compilation of the data, a satisfaction rating scale was used as follows:

5.00	(A=Excellent)
4.00	(B=Very Good)
3.00	(C=Good)
2.00	(D=Satisfactory)
1.00	(E=Poor)

Companies responding to the question provided an average rating of 4.07 (very good) for Botswana's handling of an investment request. while South Africa received a rating of 3.87 (good).

The most frequently cited information source receiving a rating of "excellent" for Botswana were the publications. Two other sources were mentioned as excellent sources of investment information about Botswana: the trade promotion office and the use of consultants.

The data shows, however, that while trade promotion offices are frequently used as sources of investment information, their services received an average rating of "good" only. On the other hand, target country embassies received a slightly higher rating or an average of "very good".

Question #19 How Could Access to the Information You Required To Assess the Investment Climate in Botswana Have Been Improved?

In several cases, companies with specific technical information needs had the greatest difficulty in obtaining the data needed to assess the Botswana investment climate. Examples of technical information requests include:

- o a company indicated some difficulty in obtaining technical information in the area of health services for use in the development of a regional blood center. He had approached the local hospital in Gabarone but they were unable to provide the required information. He could not identify another source of information

- o a new business development consultant asked for information regarding used medical equipment in Botswana and has not been able to determine whether this type of information is available.

- o a manufacturer of specialized industrial pumps was in need of information as to the potential application of

his pumps in Botswana and the region. He required data regarding irrigation or drainage needs locally and could not obtain this information.

Telephone followup with companies indicated that while potential investors were aware of a number of information sources, they could not identify one key location to obtain technical data for an investment or distribution project. Other companies did not comment on this area.

III. Investment Criteria

Question #20 Please indicate whether the following factors were important or unimportant in influencing your decision to invest or not to invest in the region?

A compilation of all responses to this question provides some indication of the most important investment criteria in each major area. The factors cited most frequently in each investment criteria area are as follows:

Physical Resources

- o Quality of Water
- o Telecommunications
- o Cost of Utilities

Human Resources

- o Availability of Labor
- o Access to Education
- o Access to Training

Physical Resources

- o Government Attitude Towards Investment
- o Ease of Obtaining Work/Residential Permits
- o Licensing Requirements/Exchange Controls

Geography/Location

- o Proximity to Ports
- o Land Access to South/Central Africa

Market

- o Access to North America (Most Favored Nation)

Political/Financial/Economic Environment

- o Stability of Democracy
- o Currency Stability
- o Availability of Forex/Tax Concessions

Quality of Life

- o Quality of Health Services
- o Favorable Climate
- o Quality of Education

Question #21 Of All the Factors Listed Above, which would you say are the five most critical in influencing your investment decision?

Responses to this question list the top five criteria as follows:

Criteria	% of Responses
Access to Regional Markets	24.2%
Stable Democracy	24.2%
Good Infrastructure	18.2%
Access to Training	18.2%
Tax Concessions	15.2%

Investment criteria ranked as 6th through 10th in level of importance to an investor were as follows: availability of managerial experience; currency stability; availability of local partner; entrepreneurial culture; and raw material access.

IV. Other Comments

Question #22 What Else Can the Government of Botswana Do to Demonstrate Its Commitment to Private Sector Development?

1. Develop a More Focused View On Industrial Development:

In telephone followup conversations with respondents, several companies emphasized the need for Botswana to more clearly define it's industrial development objectives. This would facilitate in the country's efforts to promote it's positive investment features to U.S. companies and bring about a set of industrial incentives targeted to selected industries. U.S. companies are interested in knowing that a country supports a clear long term development objective inwhich their company can fit. Examples of comments made by U.S. companies:

- o "Carve out a niche and advertise to a targeted group of potential investors"
- o "In the Far East and Middle East, the countries have an established industrial base. Therefore large foreign investors find some comfort in the existence of a local industrial base. In the case of Africa, it is not just an issue of adding to the infrastructure but the Government must have some industrial development strategy

which directs the purpose of such investment."

Companies participating in the survey were involved in manufacturing and related services. One company commented on the need for Botswana to develop an industrial promotion policy that targets related service industries for a new manufacturing base:

"they have the potential for a great deal of "spinoffs" from any new manufacturing in Botswana."

2. Designate a Strong Spokesperson for Botswana in the U.S.

Companies indicated they used a number of information sources regarding Botswana. While the Botswana Embassy is consulted in certain cases, U.S. companies were in need of a strong business representative in the U.S. conversant in the investment advantages of Botswana and who works aggressively to promote the image of Botswana to U.S. corporations. In addition, U.S. companies respond to a certain type of selling and negotiating technique. It would be advantageous also to identify a person with a good understanding of the U.S. investment decision making process so that they can respond to specific questions and provide accurate followup. As an advocate of Botswanan business, this "spokesperson" could help to improve the already positive image of Botswana and work to provide targeted marketing to U.S. companies.

3. The Need for Industry-Specific Investment Incentives

Telephone interviews point frequently to the need for industry-

specific investment incentives for U.S. corporations. According to the corporate decision-makers, large investors are more likely to invest in a country that offers a package of incentives for their industry. For example, two pharmaceutical companies stated that the reason countries in the Far East are able to attract their investment is because of a unique package of start-up and production incentives such as labor training, tax incentives and export incentives.

The survey does clearly point out the importance of tax incentives for most investors which provide a company with an easy start up period and fosters a long term commitment to that country.

4. Encourage the Local Entrepreneurial Spirit

Small U.S. companies and consultants working in the region indicated that Botswana has tremendous potential for the creation of new and innovative manufacturing and service firms. In these cases the local entrepreneurial talent could come into play to provide local joint venture partnerships and to foster greater diversity in the local industrial base. Three companies involved in medical and health technologies felt that Botswana would be an excellent base for the establishment of a blood facility for the region and other medically related activities. The companies were seeking local partners and their knowledge of this subject. One company commented in the following way:

"concentrate on attracting the U.S. entrepreneur to assist in

identifying and packaging new investment projects...Botswana should advertise itself as the next frontier for U.S. investors".

"more than 12% or \$30 billion in trade originates from U.S. companies with less than 20 employees. More effort should be made by Botswana to target these companies".

5. Commitment to Labor Needs

The data stresses the importance of trainable labor to the investor as well as local management talent. While continuing to clearly define its industrial development strategy for U.S. investors, Botswana has an excellent opportunity to review its efforts to provide local labor training for an investment project and to offer quality local management to U.S. companies.

Question #23 What Other Comments Do You Have on the Changes to the Status Quo In Botswana Required to Make It a More Attractive Location for Business Enterprises?

1. Promote Their Investment Advantages to Various U.S Industries

Companies commented frequently on some very clear investment advantages associated with Botswana. Specifically, they pointed to the country's political stability and access to regional markets. Companies suggest that Botswana more aggressively market these two major investment advantages while encouraging companies to consider Botswana as a distribution and subcontracting location. In most

cases, U.S. companies do not make immediate investment decisions without having either exported or subcontracted with a local producer. This allows the U.S. company to become familiar with the local and regional market and to better determine the long term potential of the region for a product or service.

2. Deal with the Negative Issues Effectively

Three companies directly or indirectly commented on the issue of personal safety in the region. In one case, a senior corporate representative indicated that his perception of the entire region was based on the lack of safety afforded to tourists as well as foreign managers. In another case, a consulting firm made similar comments. This issue is important to address as it affects a U.S. company's willingness to send its managerial staff to the region to begin a new investment project. While this may not be an accurate assessment of the region, it is, however, a real concern to several companies interviewed over the telephone. Botswana should take this issue into concern when talking with a potential U.S. investor and in its investment promotion programs. While Botswana is perceived as a highly politically stable environment, it is affected by a negative image associated with other parts of the region.

3. Identify a List of Potential Local Joint Venture Partners

Survey data strongly indicates that U.S. companies are interested initially in establishing joint venture projects rather than wholly own facilities. In addition, companies stress the need for good

local partners to begin an investment project. Since companies are often interested in subcontracting to local producers, BDC should make sure that it can provide up to date information on the local partnership potential of current producers or viable entrepreneurs.

A list of joint venture partners could be used as an effective marketing tool to U.S. companies of all sizes and industries. It would also assist the Government of Botswana in identifying its technical and managerial strengths in targeted industries.

4. Provide Better Institutional Support to Potential Investors

Companies were asked to comment on the sources and extent of assistance provided to them by government and private sources in identifying or implementing an investment or business opportunity in the region. Over one fourth of the companies indicated in their comments a lack of followup to their company enquiries or requests for technical information needed to make an investment decision.

Examples of followup issues include:

- o the need for health care information on Botswana. The local hospital was unable to provide technical data in the area of blood use locally or regionally. The company was unable to obtain any information during its visit.
- o while the current publications are good, there is a need for more industry-specific data including a list of potential local joint venture partners in selected industries.
- o when a potential investor or new foreign manager arrives in Botswana, the Government should make an effort to

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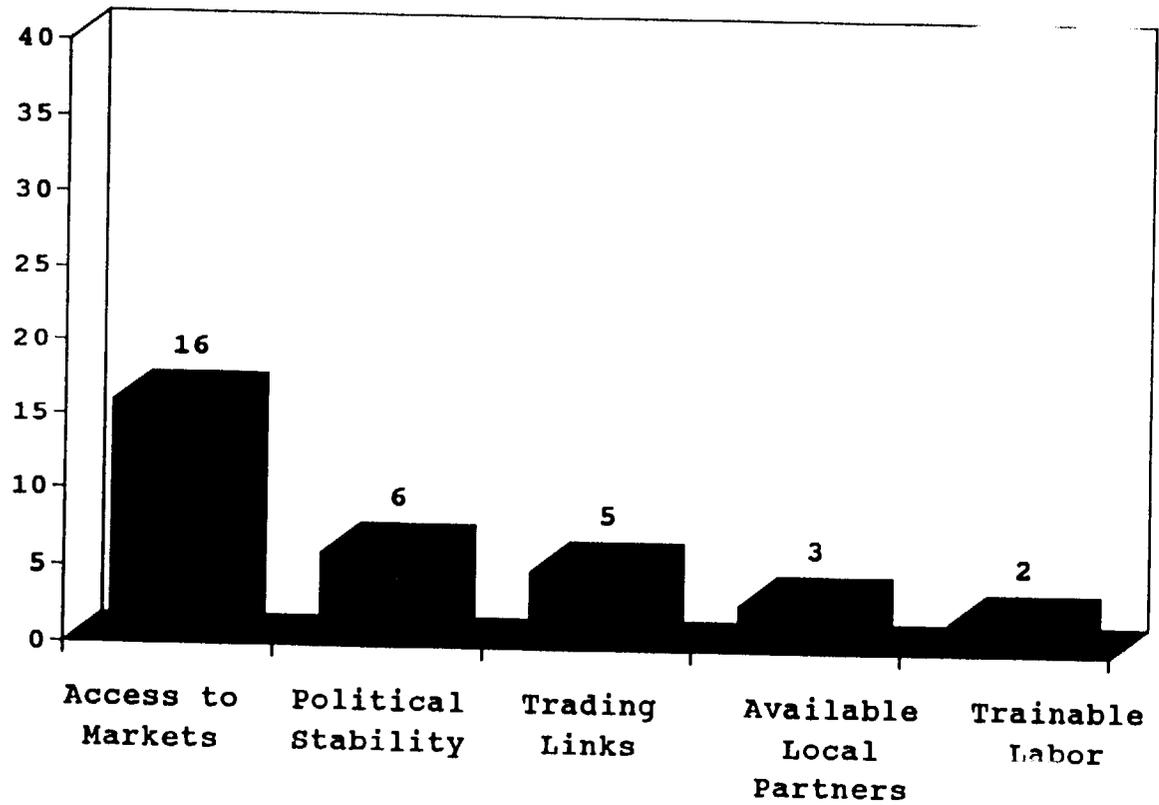
facilitate his visit either by meeting with the investor at the airport or designating a contact person to assist with any questions.

Overall, respondents had a favorable view of Botswana as an investment location but they were often seeking information and assistance unique to their industry or product. The results of the survey indicate tremendous positive potential for the promotion of its investment advantages to the U.S. business community. There is, however tremendous competition worldwide for the same investment dollars and as a result, Botswana needs to be more responsive to the individual investor through up to date information, continual followup and on-site assistance.

Country	Pub.	Consultnat	Chamber	Visits	Own Emb.	Target Emb.	TP	Other
Angola								1
Botswana	3	2	1	3	2	3	2	2
Lesotho		1		1		1	1	
Malawi		1		1			1	
Mozambique		1		1		1	1	
Namibia	1	1		1		1	1	
South A.	2	1		2	1	2	2	
Swaziland		1		1			1	
Zambia	1	1		1			1	
Zimbabwe	2	1		2	1		1	
Totals	9	10	1	13	4	8	12	2

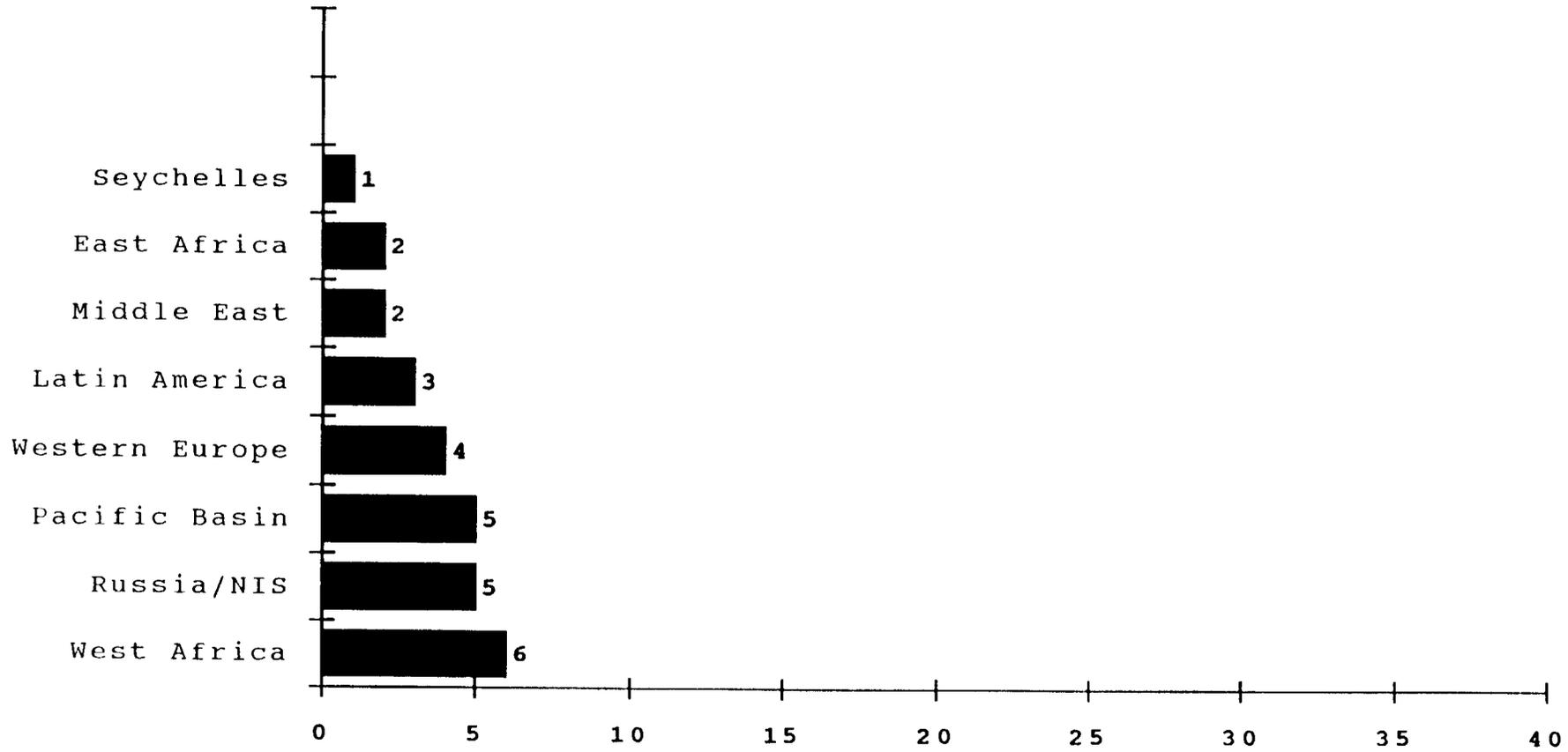
REPORT ON SURVEY RESPONSES

Question #5 Why did you become interested in the Southern African Region?



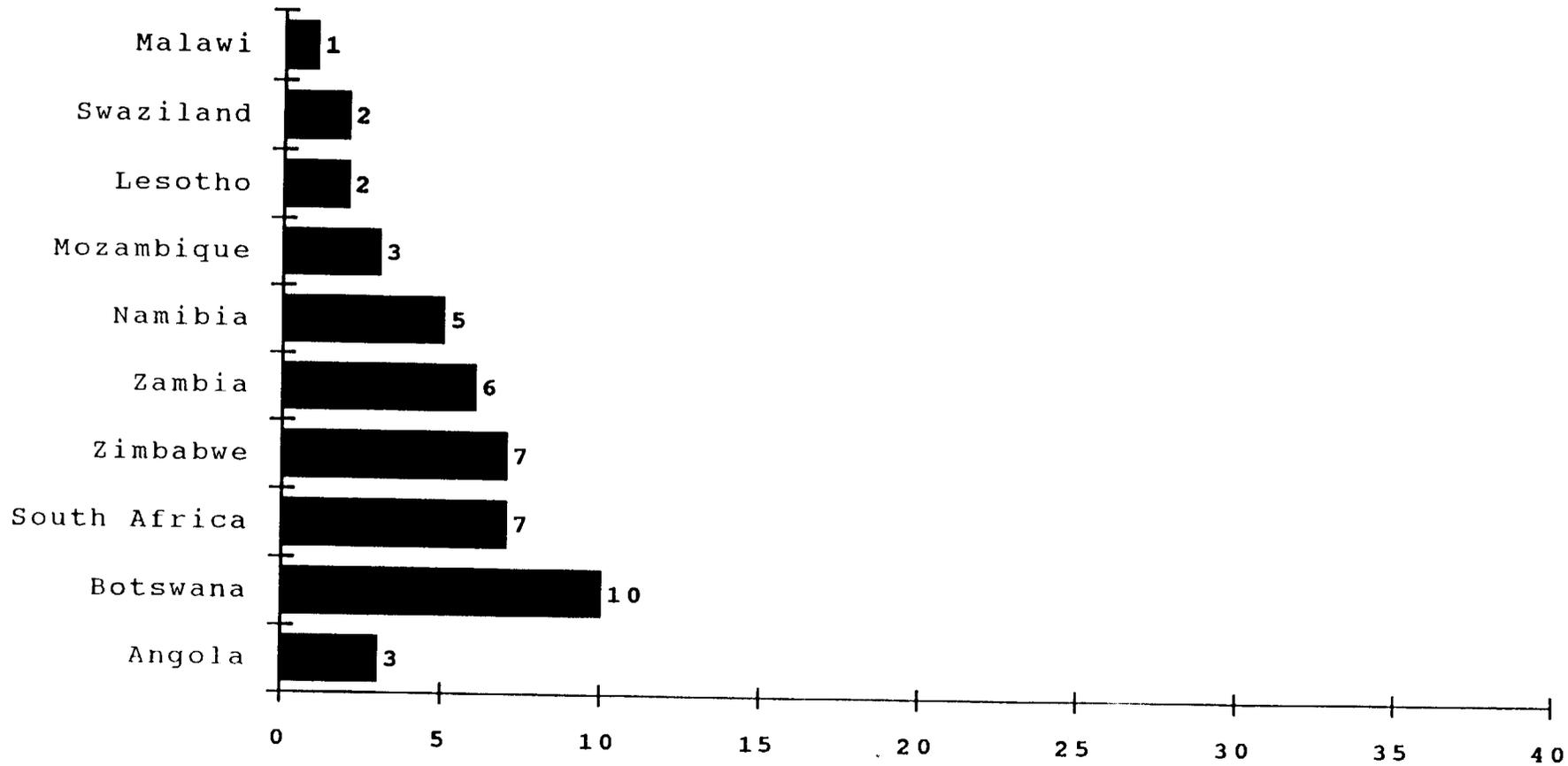
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Question #6 Are There Any Other Regions You Considered for Investment Apart from Southern Africa?



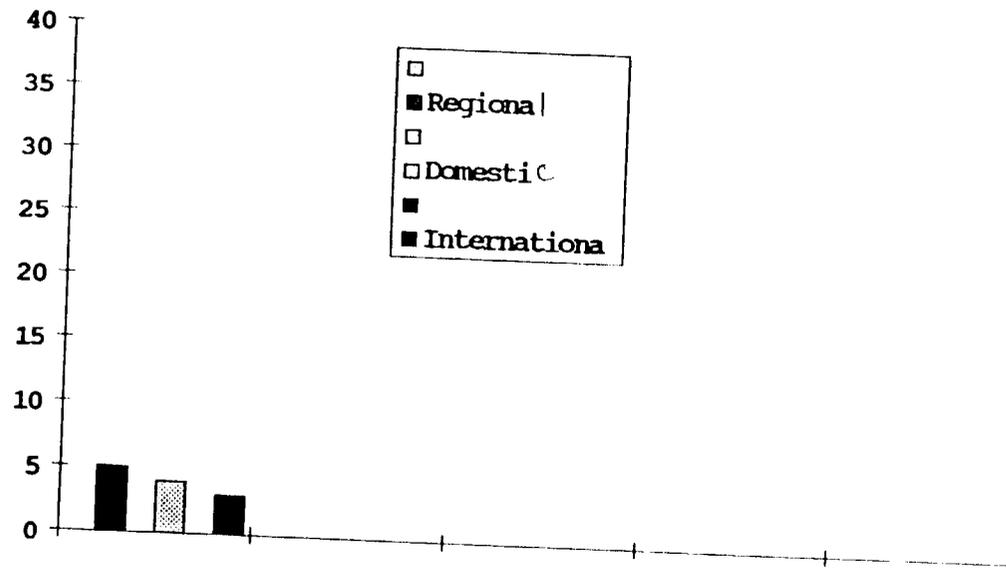
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Question #8 Which Other Countries in Southern Africa did you consider for investment?



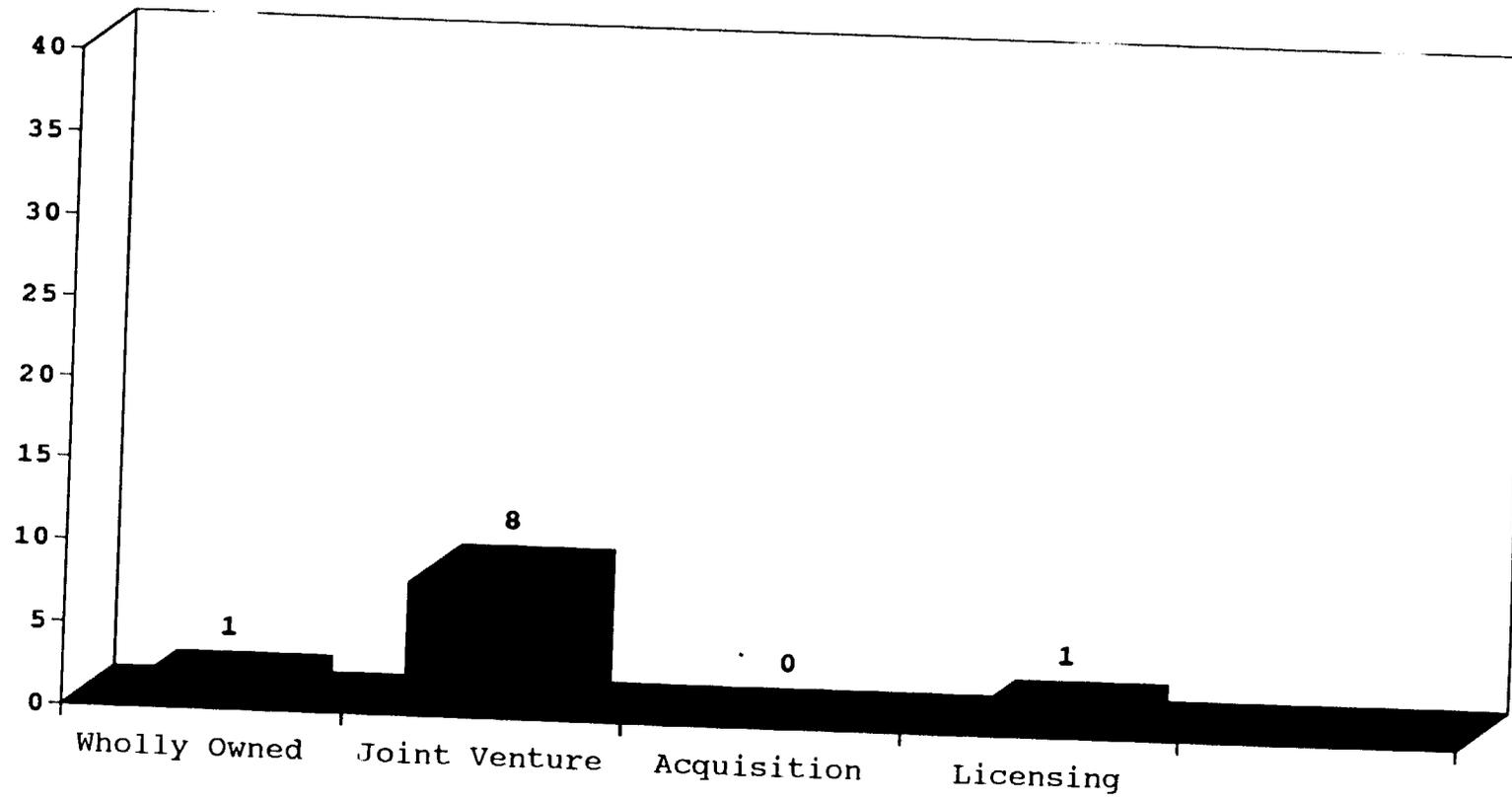
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Question #9 What markets did you initially intend to serve with this investment?



60

Question #11 What sort of venture did you intend to establish?

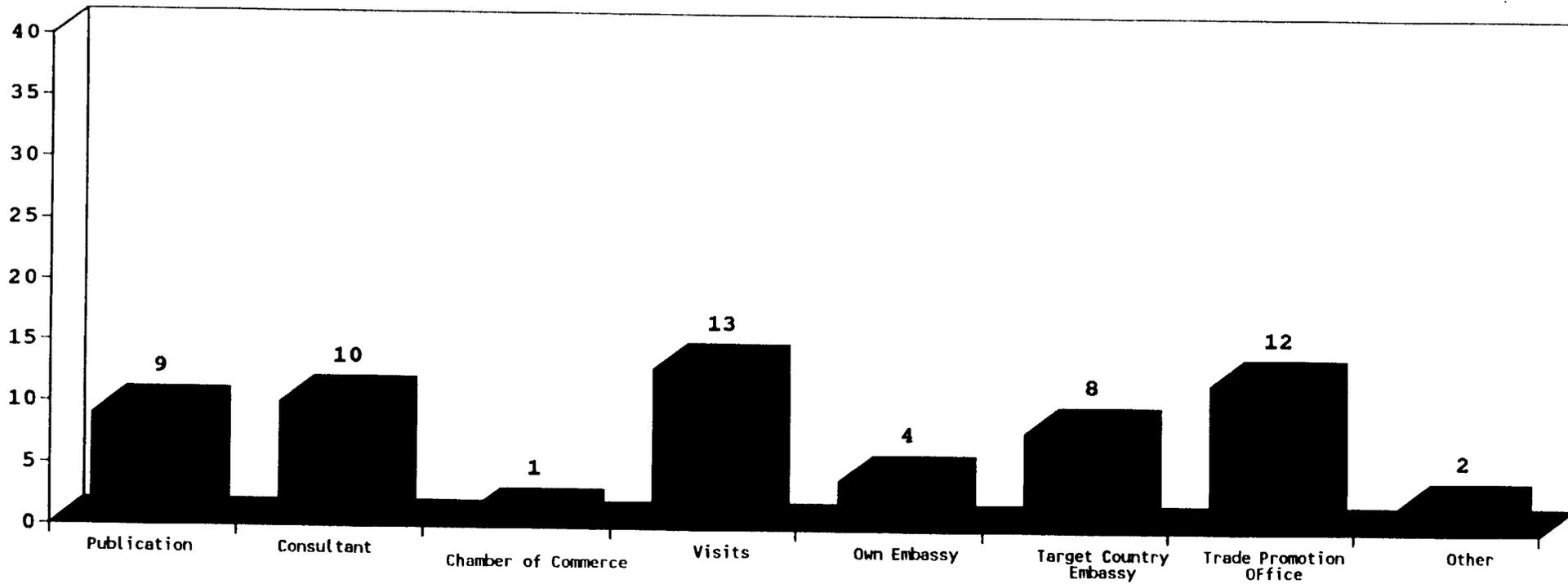


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Question #16 How Did You Try to Get Information for Each of the Countries

Considered for Investment?

ALL COUNTRIES

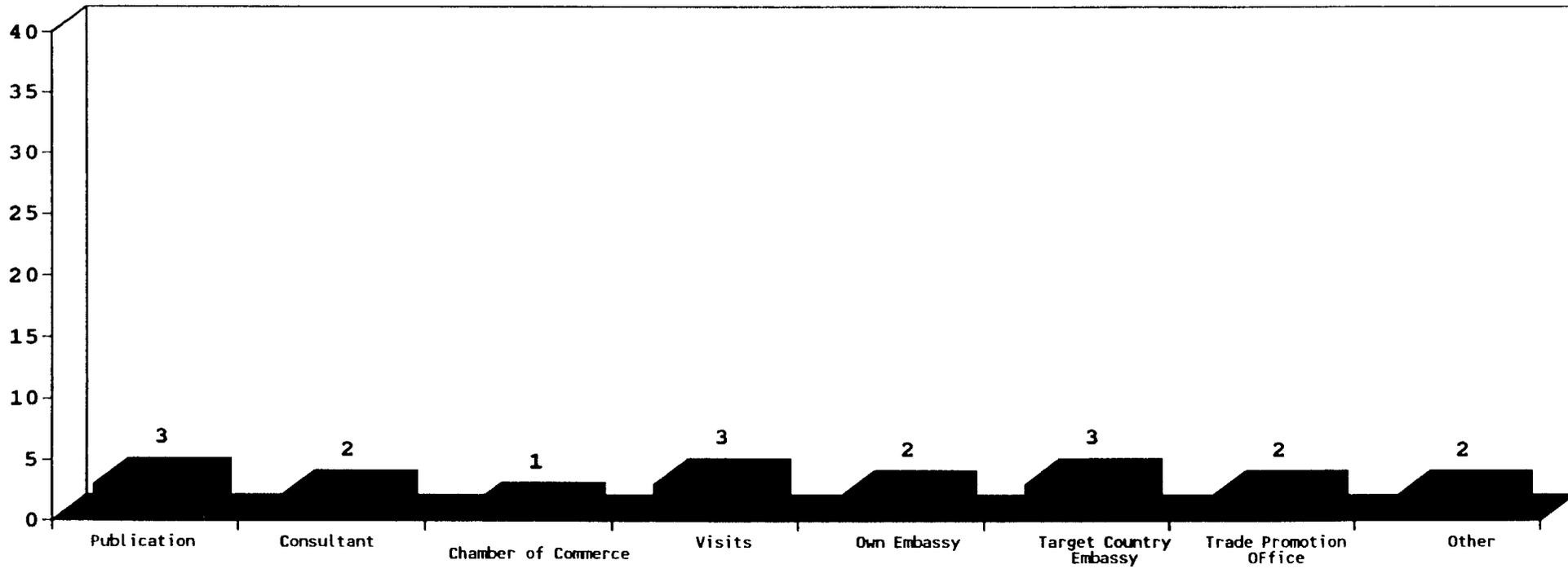


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Question #16 How Did You Try to Get Information for Each of the Countries

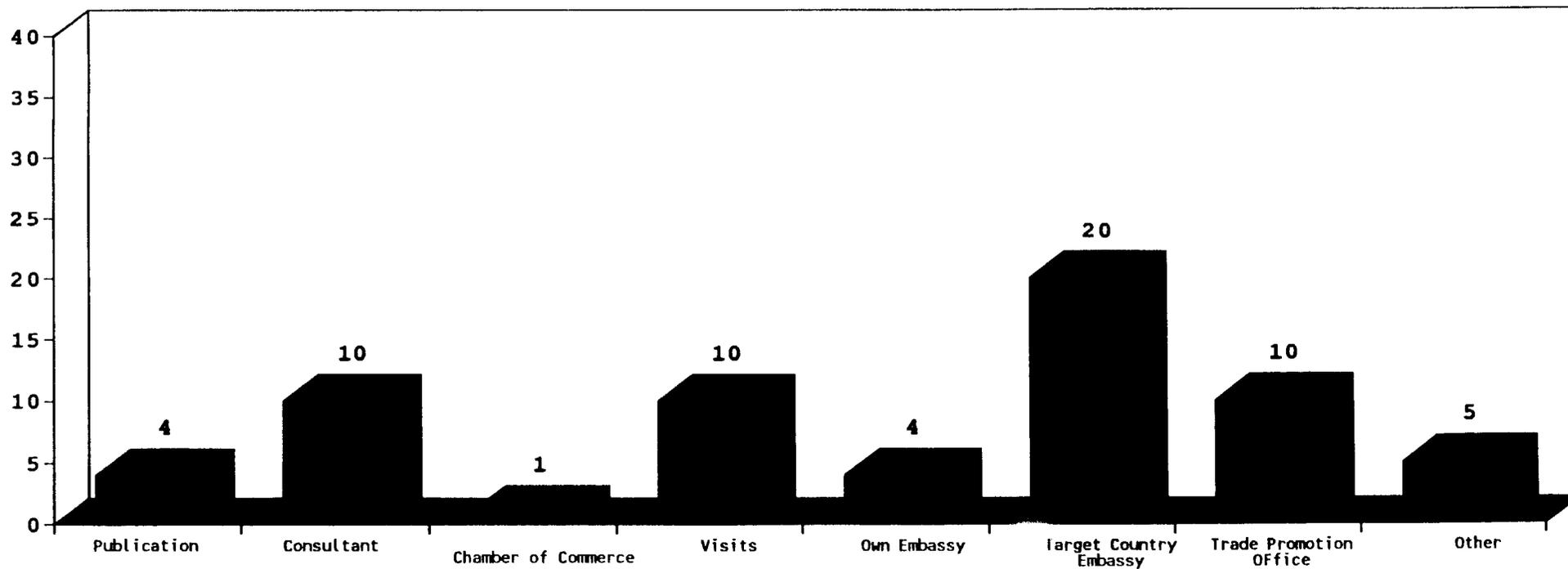
Considered for Investment?

BOTSWANA



Question #17 Which of These Sources of Information was the Most Useful?

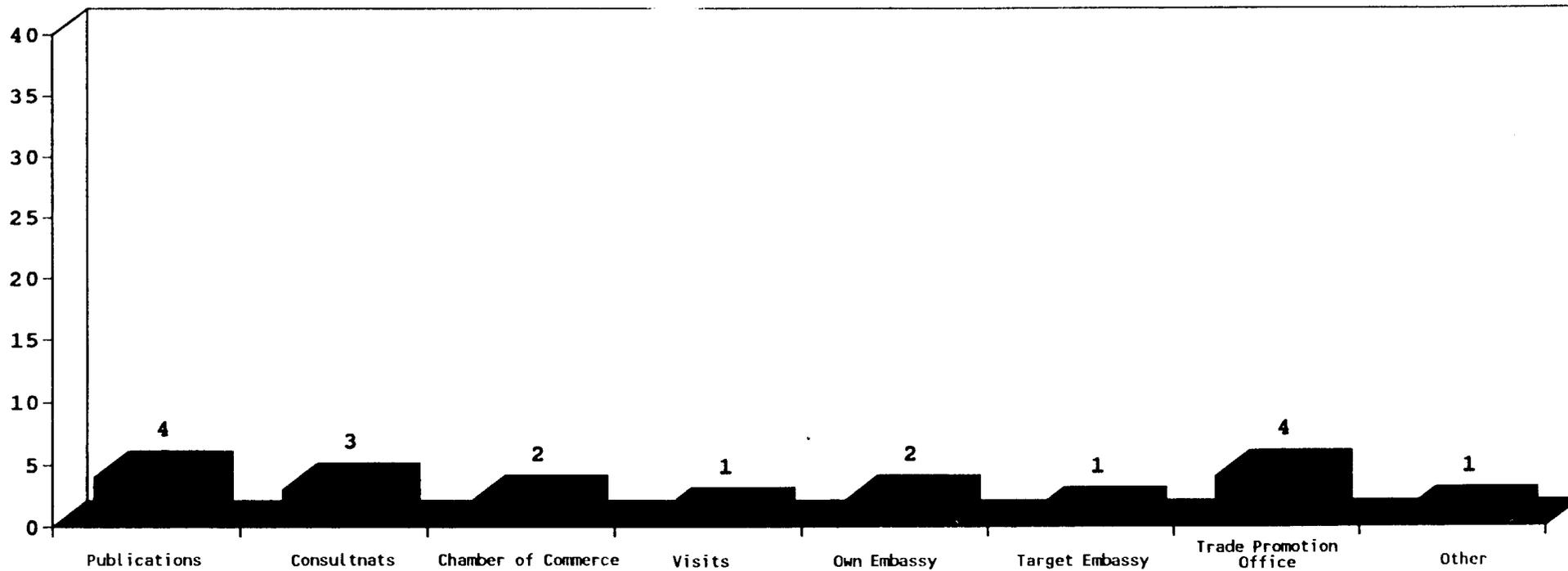
ALL COUNTRIES



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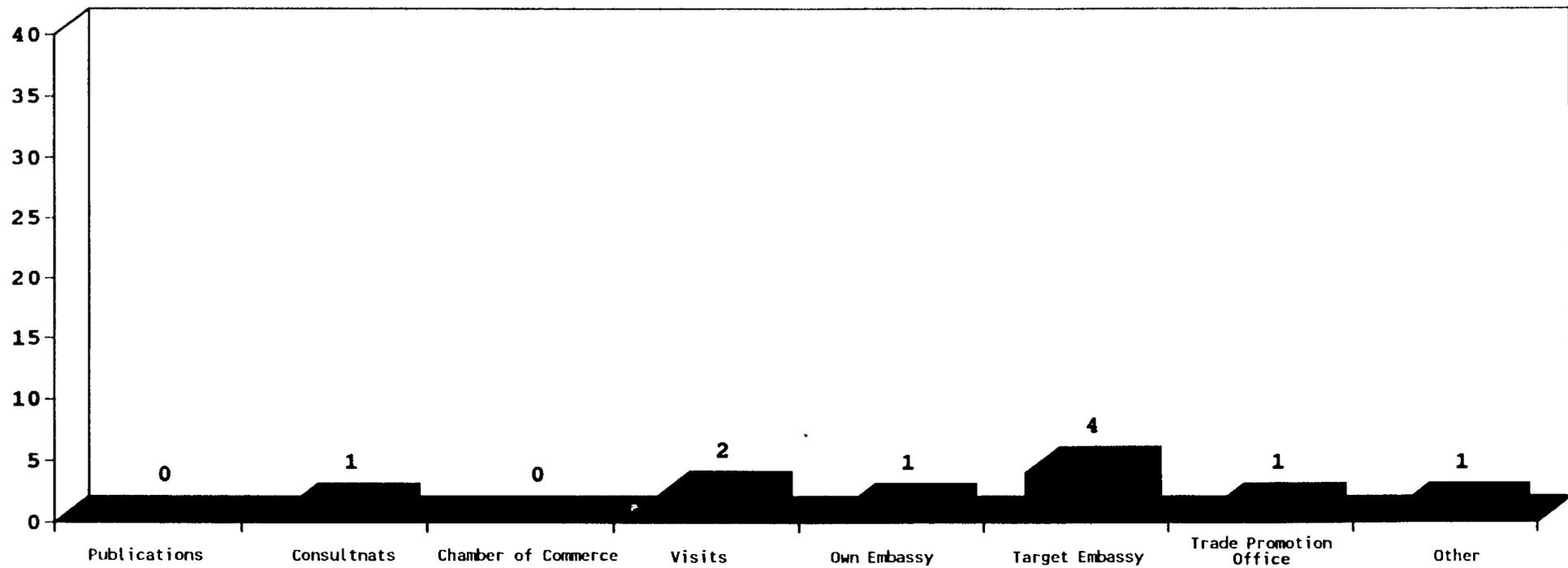
Question #17 Which of These Sources of Information Was the Most Useful?

BOTSWANA



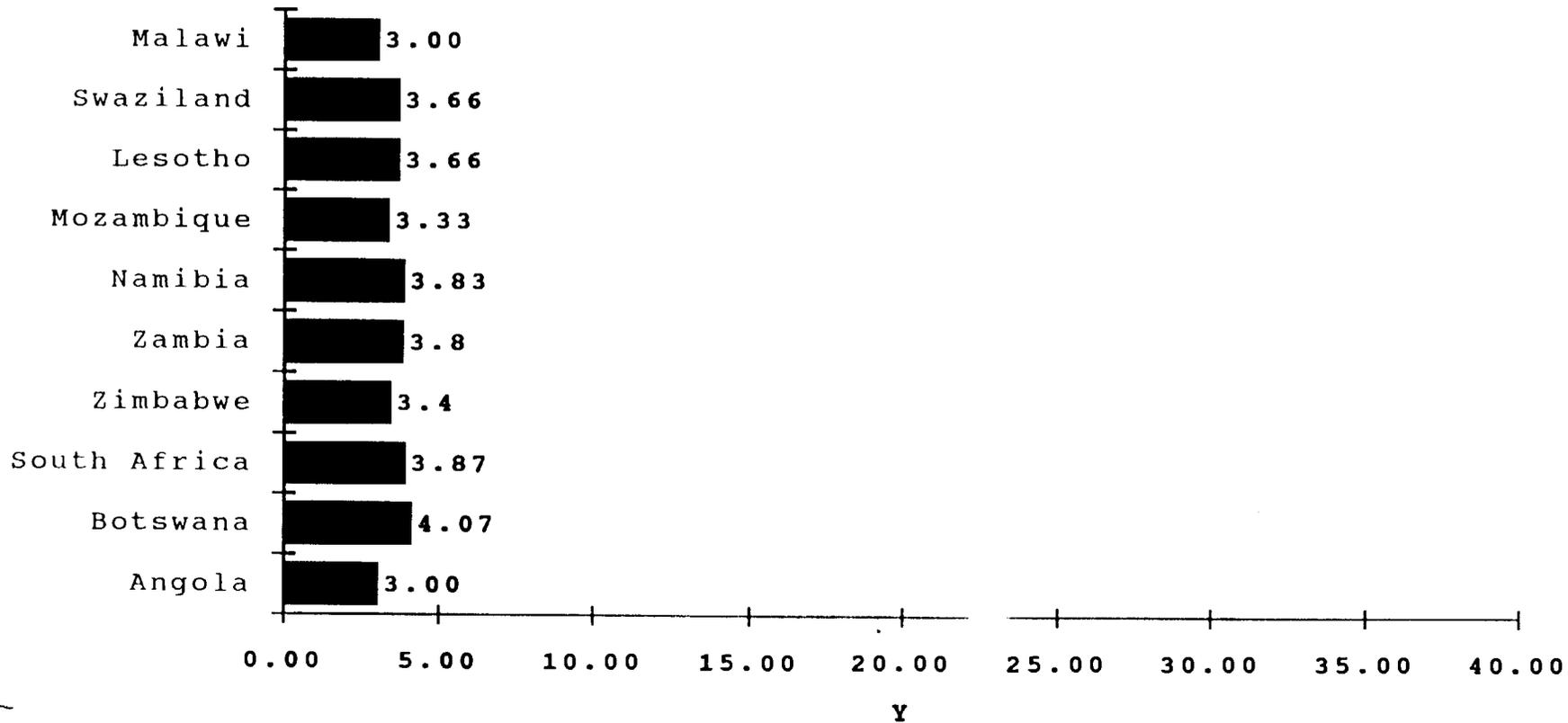
Question #17 Which of These Sources of Information Was the Most Useful?

SOUTH AFRICA



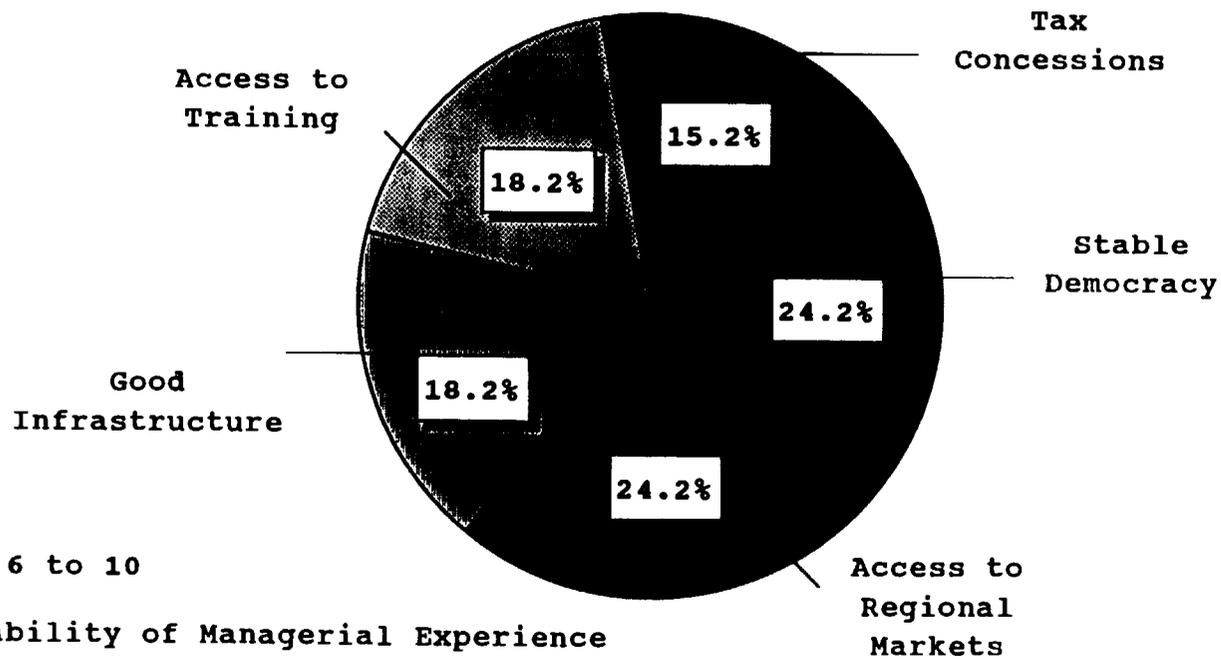
Question #18 How Satisfactory Was the Handling of Your Request for Information by the Sources You Used?

5.00 A (Excellent)
4.00 B (Very Good)
3.00 C (Good)
2.00 D (Satisfactory)
1.00 E (Poor)



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Question #21 Of All the Factors Affecting Your Investment Decision, which would you say are the five most critical ones influencing your decision?



Factors 6 to 10

6. Availability of Managerial Experience

7. Currency Stability

8. Availability of Local Partner

9. Entrepreneurial Culture

10. Raw Material Access

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POLICY RELATED ANALYSIS

Many of the suggested marketing improvements noted in Chapter 8 have policy implications. In addition, a number of the comments received from the survey respondents are in the form of direct policy recommendations.

In this annex, a number of these policy issues are discussed. It is not intended that any specific policy shifts should be considered for implementation on the basis of the work presented here. Rather, the opportunity is taken to review those issues, which could form input into other studies, or policy proposals to be conducted in the future, on the basis of the information gathered through the survey conducted under this study. Where appropriate, suggestions for small improvements or enhancements to existing policies or investment promotion strategies are made.

CONDITIONS FOR PROMOTION OF FOREIGN DIRECT INVESTMENT

It seems from the point of view of the IMF that countries which have liberalised and promoted more stable macro-policies have been the most successful in attracting sustained inward investment.¹ In particular, such policies include:

- promotion of internal savings and investment
- flexibility in internal labour and capital markets, especially with reference to real wage levels
- allowing unrestricted foreign access to domestic assets

Countries can also suffer from a contagion effect, with possible negative spillovers from similar countries in the region experiencing payments and other difficulties. As such, Africa as a whole has a negative image, which supports the need, as identified above, to promote the positive aspects of investment in the Southern African region as a whole.

Furthermore, there has been a worldwide shift in the investment strategies of major corporations, reflecting the increasingly liberal international trade arena. The shift has been from an inward focused strategy looking at import substitution, to a more outward-oriented export-promoting one.² This shift fosters comparative advantage advancing investment, rather than FDI [Foreign Direct Investment] in industries in which countries are

¹ These comments are drawn from a leading article in the *Financial Mail* of October 28, 1994, with particular reference to a speech by Spanish banker and academic Guillermo de la Dehesa to this year's annual IMF meeting in Madrid.

² Much of the following paragraphs is taken from Agosin, Manuel R. and Francisco J. Prieto, "Trade and foreign direct investment policies: pieces of a new strategic approach to development", *Transnational Corporations*, 2, 2, 1993, 63-86, with some credit also to Ozawa, Terutomo, "Foreign direct investment and economic development", *Transnational Corporations*, 1, 1, 1992, 27-54. The Agosin and Prieto article, in particular, should be regarded as essential reading for anyone interested in the subject matter of this report.

comparatively disadvantaged [as is the case with many import substituting oriented investments].

In order to capture the benefits of this shift, an increasing export orientation is required, but

It also implies that FDI is considerably more footloose, that TNCs view increasingly individual countries as alternative sites and that FDI is becoming more difficult to attract and keep. If, indeed, TNCs [Trans National Corporations] are in process of changing their investment strategies and "going more global", this would mean that trade policies of potential host countries will become increasingly important in efforts to attract and keep FDI.³

There is need, therefore, to consider trade and FDI policies jointly. A pure trade policy ignoring other areas, such as FDI, is clearly less than optimal in a world where TNCs are among the principal producing and trading agents. This is particularly relevant for countries, such as Botswana, which set much in store by the need to attract FDI from TNCs to enhance their economic performance.

Among such TNC friendly policies, which could be considered are:

- establishing well-functioning export-processing zones
- improving the availability of such schemes as effectively administered and administratively straight forward tariff-drawback schemes for foreign inputs going into export production.

It is becoming increasingly understood, however, that liberal policies by themselves, will not necessarily yield outward-oriented growth and that more pro-active and 'organically-linked' trade, investment and industrial policies are necessary.⁴

This type of analysis implies that there are a number of further changes in policy that are required in Botswana, for it to be truly competitive in the market for attracting inward investors. Based on the survey findings, these could include:

- pushing for improved trading access to the non-SACU markets in the region
- revision of the SACU agreement to remove existing biases against industrial development in the BLNS countries, and clearer opportunities for infant industry promotion [especially for those with an export orientation]
- targeted start-up utility tariff concessions or subsidies for specific purposes/periods
- additional or extended targeted start-up tax concessions
- efforts to enhance the efficiency and reduce the cost of land transportation to improve access to regional ports.

However, against this, it must be borne in mind that investment should be for the benefit of Botswana as a whole. Indiscriminate investment which does not build local capabilities,

³ See Agosin and Prieto, op. cit., p. 65.

⁴ See Agosin and Prieto, op. cit., p. 69.

transfer technologies, create sustainable employment opportunities and bring other potential benefits, should not be regarded in a particularly positive light.

Equally, Botswana should not engage in bidding wars for FDI, which would result in it failing to capture the potential benefits. It is recommended that the government encourages a sharing of information on FDI policies with other countries in the region, with a view to moving towards harmonisation over time.⁵ Such considerations should be taken into account in the context of unified trade and investment policies and discussions regarding the reform of regional trading arrangements.

These concerns lead to the conclusions that:

- careful evaluation is required over how far to amend macro-economic policies, which may jeopardise overall economic stability, for the sake of encouraging more inward investment, especially when there are still many social objectives to be met
- the competition board and other corporate monitoring agencies should ensure that existing guidelines and regulations are observed and new ones developed, in order to encourage investors to provide the economic benefits of which they are capable.

Any such regulation should have a positive and facilitative character, rather than a restrictive one.

NEED FOR AN INDUSTRIAL STRATEGY

The need for a clear statement of Botswana's industrial development objectives was highlighted in the survey. This is related to the need to target specific industrial sectors for promotion, which runs throughout the analysis and recommendations on the marketing side.

It is evident, however, that such a need is only the tip of the demand for a properly integrated industrial strategy, with a clear set of objectives and goals, as well as a clearly articulated strategy as to how to develop industry further in Botswana. This implies going further than merely creating the enabling environment, as laid down in the current National Development Plan. It implies the creation of a facilitating environment, which actively seeks to develop potential industrial opportunities and requires a more active and hands-on role to be played by government, as well as much greater coordination throughout the economy between the sectors and players involved in industrial development. Such a move is not, however, a pre-condition for the implementation of a more targeted approach

There is not sufficient space here to go into this recommendation more fully in the present report, but looking at much of the recent literature on the development of industries in the Far East and South East Asia points to a much more active role for government and much greater active coordination between the players, as being one some of the key issues, than has been conventionally recognised. Thus a "managed" rather than a "free" market approach

⁵ See Agosin and Prieto, *op. cit.*, p. 82.

is being recognised as an important part of the undoubted success of countries in that region.

The development of an industrial strategy would clearly outline the roles for all the sectors and players, including government, parastatals and the private sector, according to their present institutional capabilities, as well as establishing the organisational and institutional responsibilities and tasks, including further development of their own capacities, for each institution.

In the immediate future, in addition to the identification of target industrial sectors, and the pursuit of the broader macro policies mentioned above, work should be carried out to establish packages of "low-level" sector-specific incentives that would encourage investment in the target sectors in Botswana. These could possibly include:

- establishment of industrial training facilities
- creation of appropriate packages of tax and duty incentives
- specific targeted export incentives based on the needs of the sector.

Such assistance can be justified under infant industry arguments, which are now accepted by even the most orthodox of economists.

The difficult part in adopting such recommendations is the ability of government to remove the support as the industry and sector matures. Looking at the East Asian examples, this again has been one of the keys to their success. They have been very supportive of their industries during the start-up phase, but have readily taken away protective measures, when the time has been perceived to be correct.⁶ This mix of carrot and stick does not achieve a perfect success rate, however, as individual companies or industries may fall in the face of international competition. The latter point should not be taken to be a reason for not proceeding along such a path, rather, it should be seen as a reminder of the need for constant efforts to improve and upgrade the process.

The other arm of developing an industrial strategy is the need for the development of sufficient capabilities within the organisations and institutions supporting it, both governmental and non-governmental, so that they are capable of making judgements about changes in the level of support and extent of incentives and carrying them out. The starting point for such work would involve the building of considerable capacity within government to carry out a more active role. Such a recommendation has already formed part of the above more specific recommendations for marketing activities, which could possibly be regarded as a pilot phase, of a longer term effort to develop a more comprehensive industrial strategy.

In any case, the present lack of institutional capacity should not be taken as a reason for inaction now. There are many improvements that can be achieved in the immediate future with existing data and expertise. As a first step to demonstrate this, the first part of this

⁶ The threat to remove protection was also used as a mechanism to encourage firms to achieve targets for local sourcing, sub-contracting and worker-training, see Brautigam, *op. cit.*, p. 134.

report conducts a preliminary enquiry into suitable industrial sectors for a more targeted approach to investment promotion. An incrementalist approach should be taken, with the development of a fully fledged industrial strategy a long term goal, but with a clearly laid out action plan of interim improvements being made, including, for example, the above mentioned incentive enhancements.

DEVELOPMENT OF LOCAL INVESTMENT CAPABILITIES

This is closely linked with the issues of developing a list of local entrepreneurs and joint venture partners.

Botswana can not afford to leave the development of industry entirely to foreign investors. Such a strategy would be doomed to failure, in part as the foreign investors themselves desire local counterparts for their projects.

At the same time, all the counterparting should not be left to BDC to undertake alone. In the past it has taken BDC a considerable length of time to divest itself of some of its investments, although this has been changing of late. There are other hazards of putting all the joint venture industrial development into one institution, such as the slow development of private sector entrepreneurs or institutions with particular industrial and sectoral expertise. In spite of these issues, BDC will continue to remain a key joint venture player for some time to come.

There is a need to develop a more dynamic entrepreneurial culture within Botswana and encourage a climate of preparedness to take risks and enter into commercial and industrial ventures. Further reforms in the financial sector can assist in achieving that, including the introduction of commercially based venture capital funding,⁷ or close substitutes, as well as continuing and improving the ongoing efforts to increase competitiveness within the commercial banking sector and to develop the local stock market.

A specific analysis should be carried out on the basis of experience in other countries, as to how the development of an expanded local body of entrepreneurs might be made most effective.

RECOMMENDED FUTURE ACTIVITIES

There are a considerable number of possible policy related activities, which have already been described above, many of which are beyond the scope of this study. The following is a list of those which seem to be most important.

⁷ Such activities have traditionally been regarded as high risk, but with proper attention by the financing partners to arranging for the provision of appropriate levels of management and technical support and expertise, venture capital need not be as risky as is frequently made out.

Industry Related

- develop industrial strategy document, to include:
 - clear statement of Botswana's industrial development objectives
 - improved understanding of appropriate policies for the development of particular target industries [links to the targeting-related work mentioned above]
- revise general packages of investment and export incentives and establish package of particular incentives for each target industry, including:
 - targeted start-up utility tariff concessions or subsidies
 - additional or extended targeted start-up tax concessions
 - establishment of industry training facilities [could be done on joint public-private sector basis]
- plan for and implement policies and projects to enhance the efficiency and reduce the cost of land transportation to regional ports.
- adopt financial sector and other reforms to foster the development of local entrepreneurship
- develop institutional plans and work programme for the implementation of the strategy, including:
 - institutional assessment to define appropriate roles for various parties to industrial development efforts
 - institutional development and capacity building plans for all relevant organisations

Trade Related

- view future trade policy in an integrated framework with investment promotion policies
- push for improved trading access to the non-SACU markets in the region
- revision of the SACU agreement to remove existing biases against industrial development in the BLNS countries, and clearer opportunities for infant industry promotion
- push for greater regional openness regarding FDI policies and moves towards eventual harmonisation across the region